

LECTURES

Delivered to

The
Insurance Institute
of Winnipeg
1925-1926



Volume Four

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192

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Recent Legislation Regarding Statutory Conditions

RECENT LEGISLATION REGARDING STATUTORY CONDITIONS

By TRAVERS SWEATMAN, K.C.

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Some years ago the Canadian Bar Association formed a committee called the "Committee on Uniformity of Law." The name of the committee really speaks for itself. The purpose was to, as far as possible, amalgamate and make uniform commercial law throughout Canada.

This committee succeeded in having each province appoint one or more commissioners on uniformity of law; and, as a result of their efforts, a number of subjects have been considered and uniform acts passed by all of the Provinces in Canada. Amongst them the business of fire insurance has been considered. An attempt has been made to pass a uniform fire insurance act for the whole Dominion.

Last year I had the honor to address your Institute upon fire insurance law and, at the request of your President, am now going to endeavor, for a few minutes, to draw your attention to some changes in the law effected by the new Act.

The Province of Manitoba passed a new fire insurance policy Act in 1925, being Chapter 29 of the Statutes of Manitoba, 1925. This Act was designed to come into force as soon as an Order-in-Council to that effect was passed, and this Order-in-Council has been passed, bringing the Act into effect on the first of January, 1926.

The Province of Saskatchewan enacted a new insurance Act in 1925, being Chapter 20 of the Statutes of Saskatchewan for that year. In Saskatchewan the fire insurance policy sections are not in a separate act. They are included in the general Act on Insurance—Sections 144 to 151 inclusive, corresponding to the Manitoba Act. The new Statutory Conditions are not yet in effect, but will become law on January 1st, 1926.

The Province of Alberta has not yet passed a new Act and the conditions in that Province are, therefore, as they are here now.

The Province of Ontario passed a new fire insurance Act in 1924, being Chapter 50 of the Statutes of Ontario for that year. This is a general act on insurance and the fire insurance sections are 87 to 112 inclusive.

For convenience, I am going to use the sections in the Manitoba Act and all the references I will make to sections, unless specifically mentioned otherwise, will refer to the Manitoba Statutes.

I also intend to deal briefly with the new legislation in respect of Automobile Insurance, Accident and Sickness Insurance. I know most of you are engaged in all forms of insurance and I thought it would be interesting if I commented on this new legislation.

First of all, in respect of the new fire insurance policy Act of Manitoba. The most important clauses in the new Act are Sections 6, 7, 8 and 9. They are as follows:

Section 6 makes the Statutory Conditions applicable to all forms of insurance, including rent, charges and loss of profits, to which certain conditions do not apply.

Section 7 reads as follows:

A policy may contain a co-insurance clause, in which case it shall have printed or stamped upon its face in conspicuous type and in red ink the words: "This policy contains a co-insurance clause," and, unless those words are so printed or stamped such clause shall not be binding upon the insured. Such clause shall not be deemed a variation of any statutory condition.

You are all familiar with the printing of the co-insurance clause on the policy and this clause simply defines how it is to be done and you will notice it provides that the clause shall not be deemed a variation of any Statutory Condition.

Section 8 is very important and beneficial to insurance companies because recent decisions have practically destroyed the value of concurrent insurance clauses in fire insurance policies so far as they purport to limit liability to a certain percentage of the loss under certain conditions.

Section 8 reads as follows:

A policy may contain a partial payment of loss clause to the effect that the insurer in the event of loss shall pay only an agreed proportion of any loss which may be sustained or the amount of the loss after deduction of a sum specified in the policy, in either case not exceeding the amount of the insurance, in which case there shall be printed or stamped upon the face of the policy in conspicuous type and in red ink the words, "This policy contains a partial payment of loss clause." Such clause shall not be deemed a variation of any statutory condition.

Concurrent insurance is insurance covering the same interest in the same property. Under the Statutory Conditions you will remember that if the insured has other insurance which he doesn't disclose, or puts on further insurance without the company's consent, then he is only entitled to recover 60% of the loss and, if fraud is proved, he is not entitled to recover anything. The concurrent

insurance clause is designed to be a waiver or partial waiver of this Statutory Condition. In some cases the concurrent insurance clause might be effective as a partial payment of loss clause. For example, supposing a policy is issued with a permit to insure up to 80% and the insured puts on concurrent insurance up to 100%, the company giving permission would only have to pay 80% or perhaps only 60%. The point has not been decided so far as I know. It would be an interesting question if there was a total loss and the loss amounted to, say \$10,000.00, the total insurance being \$8,000.00 by the company giving permission to insure up to 80%. In that event these companies would have to pay the full amount of the policies.

This partial payment of loss clause enables companies to do what heretofore they have been trying to do under this concurrent insurance clause, namely, restrict their liability to 75% or 80%, as the case may be. Now, under the new sections, if the proper words are stamped on the face of the policy in red ink, in short, if the procedure is carried out, the clause is effective and the company is protected.

Perhaps it would be interesting to you if I gave you a short resume of two or three cases on this point, in which the insurance companies failed to make the concurrent insurance effective as a partial payment of loss clause under the old Statutory Conditions.

In *Farmers Fire & Hail Insurance Company v. Phillip*, the clause was as follows: "Total concurrent insurance, including this policy, permitted to 75% of the actual cash value of the property insured." There was no other insurance and Judge Walsh held that on account of their being no concurrent insurance the clause had no application. In *Marshall v. Wawanesa*, (1924) 2 D.L.R., the liability was limited to two-thirds of the actual value. This was held by the Court of Appeal in British Columbia to be a statutory variation. In the Ontario case, *Excelsior v. Glens Falls*, 55 O.L.R., the clause was as follows: "No further insurance permitted." This was held to be a statutory variation and not binding on the insured, and apparently such a clause would still amount to a statutory variation.

Section 9 is also a big improvement from the fire insurance company's point of view. It reads as follows:

Where the rate of premium is affected or modified by the user, condition, location, or maintenance of the insured property, the policy may contain a clause not inconsistent with any statutory condition setting forth any stipulation in respect of such user, condition, location or maintenance, and such clause shall not be deemed a variation of any statutory condition. Such clause shall be binding on the insured only in so far as it is held by the court before which a question relating thereto is tried to be just and reasonable.

Perhaps the best way to explain the effect of this section would be to deal with a couple of cases where the company was held liable, although the assured had agreed with the company to maintain the property in a certain condition and had failed to do so. The cases I refer to are: *McKay vs. British America Insurance Company* (1922-23) 2 D.L.R. and *Gregory vs. Palatine Insurance Company* (1924) 3 D.L.R. 987. In the latter case, in a policy of insurance on lumber, there was a "space" clause specifying certain distances to be kept clear between the lumber and the mill and so forth. This was held to be a statutory variation and the company was held liable, notwithstanding that the space clause had not been observed. You will observe that the last sentence of the clause contains an expression to the effect that such stipulations "user and so forth" are only binding in so far as the Court thinks them just and reasonable. Such a clause is designed to promote litigation because in every case where a fire occurs and there has been a breach of any such stipulation, and particularly where the breach did not cause the loss, the assured will claim that the clause is unjust and unreasonable and throw himself on the sympathy of the Court and the Court is not always unsympathetic where a poor man has suffered a loss and "alleged wealthy insurance companies" have to pay. It might also be pointed out that Clause 8 does not deal with the description of the risk. There has been considerable litigation over the question as to whether the limitation of the peril insured against is a statutory variation or a description of the risk which the company undertakes. In a case in Manitoba, *Green vs. Manitoba Assurance Company*, the policy contained the words: "The Company is not responsible for loss caused by prairie fire." This was held to be a statutory variation. On the other hand, in the noted case of *Curtis and Harvey against North British and Mercantile Insurance Company*, which went to the Privy Council, commonly known as the "explosion case" (see 55 D.L.R., page 95), the Privy Council held that certain words in the policy excluding certain kinds of explosion from the peril insured against was not a statutory variation, although the matter of explosion was, to some extent, dealt with in the Statutory Conditions.

In the case of *Russell vs. Scottish Union Insurance Company* (1918), 58 S.C.R., a house was insured "while occupied as a dwelling house" and was destroyed while not occupied. The Court held that these words were descriptive of the risk and did not amount to a variation and the company held not liable.

It is to be noted that the question of variation is a question which is dealt with in the Statutory Conditions. The tendency appears to be to hold that the words limiting the risk or peril insured against are not statutory variations, although it is perhaps to be regretted that an expression to this effect is not found in the new Act. There is also apt to be litigation over Section 9 on account of the fact that it is sometimes difficult to say whether a certain clause is a description of the risk or whether it is something relating to the user, condition, location or maintenance of the insured property.

There is no specific section stating that on all policies issued in the ordinary course of business prior to the coming into force of the new Insurance Act that the old Statutory Conditions and Sections of the old Act shall govern, but Section 6, which brings the new Sections into effect, says that these Statutory Conditions shall be deemed to be part of every such contract in force in the Province and shall be printed in every such policy, with the heading "Statutory Conditions," etc. I am of the opinion that this would be construed by the Courts to mean every contract issued after this Act comes into effect, otherwise it would be impossible for anyone to print these new conditions on a policy—the general rule being that a new Statute is not retroactive and does not affect vested rights or existing contracts.

Please bear in mind that I have been dealing with the new Sections of the Fire Insurance Policy Act and not the Statutory Conditions.

There are a number of points which arise in connection with the new Statutory Conditions. It would be too big a task to point out in retail the difference between the old and new conditions, but I will endeavor to point out some of the more important changes and new features.

Statutory Condition No. 1 (formerly Statutory Condition No. 1) is as follows:

Misrepresentation 1. If any person applying for insurance falsely describes the property to the prejudice of the insurer, or misrepresents or fraudulently omits to communicate any circumstance which is material to be made known to the insurer in order to enable it to judge of the risk to be undertaken, the contract shall be void as to the property in respect of which the misrepresentation or omission is made.

The new words are "falsely" and "fraudulently." some rights are taken away from the insurance companies because insurance has been held to be a contract requiring the utmost good faith on the part of the insured and the failure to communicate material circumstances may avoid the policy, even if such failure was due to accident or mistake and not design.

In this connection, it might be well to point out that the practice of writing insurance, particularly new policies, without obtaining a written application is bad practice. In most of the unsatisfactory loss cases, liability would have been avoided if the company had had a written application, because, if the answers in the application had been answered correctly the insurance would not have been written and if the answers had been incorrectly given there would, of course, have been no liability.

We also find the practice very loose where applications are taken, in that where the insured has found a question awkward to answer he does not answer it and the business is written without requiring the answers to all questions.

Statutory Condition No. 3 (formerly Statutory Condition No. 13):

Property not Insured 3. Unless otherwise specifically stated in the policy, money, books of account, securities for money, evidences of debt or title, and automobiles, tractors and other motor vehicles, are not insured.

You will note that added to "money, books of account, securities, etc.," are "automobiles, tractors and other motor vehicles." This leaves a nice point. If an automobile is specifically stated as insured in the policy, do the automobile conditions apply, so far as the insurance on the automobile is concerned, and, if so, what is the situation if there is no application?

Statutory Condition No. 4 (old Statutory Condition No. 14):

Risks not Covered 4. Unless otherwise specifically stated in the policy, the insurer is not liable for the losses following, that is to say:

- (a) for loss or damage to property owned by any person other than the insured, unless the interest of the insured therein is stated in the policy;
- (b) for loss or damage caused by invasion, insurrection, riot, civil commotion, military or usurped power;
- (c) for loss due to the want, within the knowledge of the insured, of good and substantial chimneys; or caused by ashes or embers being deposited, with the knowledge and consent of the insured, in wooden vessels; or by stoves or stove-pipes being, to the knowledge of the insured, in an unsafe condition or improperly secured; or
- (d) for loss or damage to goods while undergoing any process in or by which the application of fire heat is necessary.

This new condition contains some important changes.

New Condition No. 4 (a) leaves out the words, "For loss beyond the actual value destroyed by fire, nor for loss occasioned by ordinance or law regulating construction or repair of buildings." What is the effect of leaving out the words "for loss beyond the actual value"?

In the Colonsay Hotel case it was held that "actual value" in the case of buildings may not always mean the replacement value. Is it left open for the company to insert in the policy the words "actual cash value"? In other words, to define the loss or damage. Would a definition of loss or damage in the body of the policy be a statutory variation or only a description of the risk?

This raises a nice question as to the power given under Section 8 of the Act, to which I have already referred, namely:

Is it permissible to insert in the body of the policy any clause defining the rules or principles which would govern in computing the amount of the loss? For example, in the case of buildings actual cash value or market value would often have a different meaning than replacement value, less depreciation. Under existing circumstances some goods are appraised at market value; again as to other goods, that is, articles in use, such as machinery, furniture and personal property other than stock-in-trade, the market value is not necessarily the true measure of indemnity, and the insured must replace what he has lost. It is stated in Welford that the rule in this case is the same as in the case of buildings and that the true measure of indemnity is the cost of reinstatement and not the market value of the property destroyed. In the case of buildings, the ordinary measure of indemnity is replacement, less depreciation, but under some circumstances, such as those existing in the Colonsay Hotel case, the actual value of the building on which the insurance company is liable may be a great deal less than replacement, less depreciation.

If the body of the policy simply states that the company will make good loss and damage up to a certain amount, this is not as satisfactory as if the policy provided that the policyholder was insured against loss or damage by fire based on actual cash value not exceeding \$.....

In 14 (c) in the old Conditions the words were: "good and substantial brick or stone or cement chimneys." Now, under the new Condition 4 (c) it is stated that the company is not liable for loss due to want within the knowledge of the insured "of good and substantial chimneys." The words "within the knowledge of the insured" are new and by leaving out the references to material they have widened the scope of the company's liability. The insured might say, first, that he didn't know anything about the chimney and, in the second place, that it was a good, substantial spruce chimney.

Statutory Condition No. 5 has a slightly different classification than formerly. It reads:

**Risks not Covered
Except by Special
Permission**

5. Unless permission is given by the policy or endorsed thereon, the insurer shall not be liable for loss or damage occurring:

Repairs (a) to buildings or their contents during alteration or repair of the buildings and in consequence thereof; fifteen days being allowed in each year for incidental alterations or repairs without such permission;

**Inflammable
Substances** (b) while illuminating gas or vapour is generated by the insured, or to his knowledge, in the building insured or which contains the property insured, or while there is stored or kept therein by the insured, or to his knowledge, by any person under his control, petroleum or any liquid product thereof, coal oil, camphene, gasoline, burning fluid, benzine, naphtha, or any of their constituent parts (refined oil for lighting, heating or cooking purposes only, not exceeding five gallons in quantity, gasoline, if contained in a tightly closed metallic can free from leaks and not exceeding one quart in quantity, or lubricating oil not being crude petroleum nor oil of less specific gravity than is required by law for illuminating purposes, not exceeding five gallons in quantity, excepted), or more than twenty-five pounds weight of gunpowder, dynamite or similar explosives;

**Change of
Interest** (c) after the interest of the insured in the subject-matter of the insurance is assigned, but this condition is not to apply to an authorized assignment under The Bankruptcy Act or to change of title by succession, by operation of law, or by death;

Vacancy (d) when the building insured or containing the property insured is, to the knowledge of the insured, vacant or unoccupied for more than thirty consecutive days, or being a manufacturing establishment, ceases to be operated and continues out of operation for more than thirty consecutive days.

The subsections of 5, namely, "A", "B", "C" and "D" were formerly 14 "E", "F" and "G," Subsection "C" of 5 being formerly Statutory Condition No. 12.

Re New Section 5D (formerly Old Section 14G). The old section provided that the company is not liable where the building insured or containing the property insured is or becomes vacant and unoccupied. The new section provides that the insurer is not liable for loss or damage occurring when the building insured or containing the property insured is, to the knowledge of the insured, vacant or unoccupied, and so forth. Under the old section, the building had to be both vacant and unoccupied in order to affect the insurance. The new clause substitutes or for and. It is possible for a building to be unoccupied but not vacant. For example, the owner may be away for thirty days but leaves all his furniture in the house, in which case the building would be unoccupied, but not vacant. The new vacancy clause also provides that the insurer is not liable for loss or damage occurring when the building insured or containing the property insured, being a manufacturing

establishment, ceases to be operated and continues out of operation for more than thirty consecutive days.

New Statutory Condition No. 9:

Mortgagees and Other Payees 9. When the loss, if any, under a policy has, with the consent of the insurer, been made payable to some person other than the insured, the policy shall not be cancelled or altered by the insurer to the prejudice of such person without reasonable notice to him.

No. 9 is new in Manitoba. There was formerly nothing in the Statute requiring notice to payee or mortgagee before cancelling the policy. The company would probably be safe in assuming that "reasonable notice" is in any event notice required by the Statutory Conditions to cancel the policy.

In this connection, a peculiar situation arises when the insured goes into bankruptcy. Condition No. 5 (c) provides that a policy remains in force after an authorized assignment under The Bankruptcy Act or a change of title by process or operation of law or by death. Involuntary bankruptcy might be an example of an assignment by operation of law. The Bankruptcy Act shortly provides that all insurance covering property of a debtor shall, in the event of loss, be payable to the trustee as fully and effectually as if the name of the insured were written in the policy as that of the insured, etc. The name of the trustee is substituted for the name of the insured but nothing is said about the position of a payee. No doubt the position of a mortgagee who holds a mortgage clause would not be affected. The position of a payee is somewhat peculiar. He is not a party to the contract and merely has the right after loss has been suffered and the claim adjusted to collect the claim of the insured against the company. Where the insured goes into bankruptcy, both the property and policy vest in the trustee. It seems to me that it becomes impossible for a debtor to keep his agreement to insure goods in favor of a creditor after a debtor has gone into bankruptcy and the trustee would probably come ahead of the payee. Perhaps the most satisfactory procedure would be for the company to cancel the policy by giving notice to the payee and issue a new policy to the trustee.

Statutory Condition No. 10 deals with termination of insurance and cancellation of policies. It provides that notice will commence to run from the day following the receipt of the registered letter at the Post Office to which it is addressed. This is an advantage over old Section 10, because it has been held under such section that the Post Office is the agent of the Insurance Company and that the time runs from the date of delivery by the Post Office and

does not run at all if the letter is not delivered by the Post Office.

Statutory Condition No. 11. This was partially embraced in Section 20 (d). The old section required the insured, if practicable, to separate damaged from undamaged property and exhibit for examination all that remains of the property covered by the policy. The new section is more complete in that it is the duty of the insured, when and as soon as practicable, to secure the insured property from further damage and to separate damaged from undamaged property and to notify the insurer of the separation. Under old Section 20 (d), the insured, if required, had to exhibit for examination all that remained of the property covered by the policy. The rights are wider under Section 13.

Statutory Condition No. 15 is a new section giving requirements as to proofs of loss. This section is practically the same as Old Section 20. I would like to draw your attention to a recent case of London Loan and Savings vs. Union Insurance, in which the Union Insurance Company were mortgagees and the policy contained the usual mortgage clause. Before the fire, the property in question had been twice sold and the insurance policies twice assigned without the consent of the company. Proofs of loss were apparently furnished by the mortgagee. It was held that in view of the provision of the mortgage clause that preserved the rights of the Mortgagee notwithstanding anything that might be done by the Insured, the policy could not be construed so as to render it impossible for the mortgagee to recover by reason of the action of the insured in parting with the property. It was also held that the case fell within the provision of Section 199 of the Ontario Insurance Act, now Section 95, which is to the effect that the Court can relieve from imperfect compliance with the statutory condition as to the proof of loss to be given by the insured. Imperfect compliance has been construed wide enough to cover total failure to comply apparently both in this case and in the case of Shepherd vs. Glens Falls. The case of the London Loan and Savings Company vs. Union Insurance is also of a good deal of importance because the property had changed hands to the knowledge of the mortgagee. The mortgage clause stipulated that the mortgagee shall at once notify the company of any change in ownership that shall come to its knowledge and shall also notify of any increase of hazard. It was held that failure to notify the insurance company had not invalidated the policy because the mortgage clause did not provide that the policy would be void if the mortgagee failed to notify

the company of any change of ownership or increase of hazard that came to its notice. It was held that as the clause provides that no act or neglect of the mortgagee shall invalidate the policy, the policy shall not be void by any neglect of the mortgagee. This is the first case in Canada on that point, and prior thereto it was generally considered that the mortgagee was bound to observe the requirements of the mortgage clause if he wished to rely thereon.

Statutory Condition No. 17. This is the arbitration clause, formerly Statutory Condition No. 22. An important defect has been cured because the old section provided that if two arbitrators appointed could not agree on a third, the third should be appointed by a District Court Judge. There are no District Court Judges in Manitoba. The new section provides that a third arbitrator may be appointed by a Judge of the County or District Court.

Statutory Condition No. 19 (Old Section No. 17). This is the condition covering replacement by the company. The new section requires the insurance company to commence repairing or rebuilding within thirty days after receipt of proofs of loss and to proceed with due diligence, putting a heavier onus on the company than was required under the old section.

Statutory Condition No. 24:

The insurer may require from the insured an assignment of all right of recovery against any other party for loss or damage to the extent that payment therefor is made by the insurer.

This is the subrogation clause. There is no corresponding old section, but the right of subrogation is well known and established by many decisions in the Courts and the new section hardly appears necessary as it may work a limitation rather than provide new rights. It may also give rise to some difficult questions. For example, if the insured has an action for damages for negligence against a third party in starting a fire and the insurance company did not pay the whole loss, could the insured assign part of the loss or claim so that the defendant would be subject to two suits for the same thing?

NEW ACCIDENT AND SICKNESS INSURANCE ACTS

These are as follows:

Alberta (1924), Ch. 13.

Manitoba (1924), Ch. 33.

Ontario (1924), Ch. 50, Sec. 177 to 187.

Saskatchewan (1924-25), Ch. 20, Sec. 221 to 234.

The main function of the new Accident and Sickness Insurance Policy Act appears to be to give Statutory

Conditions. It also contains a section relieving the insured from liability to forfeiture of claim where there has been imperfect compliance with conditions as to proofs of loss. The Act does not require an application to be in writing, but in view of Statutory Condition No. 2 it is not likely that any company would issue a policy without a written application.

Statutory Condition No. 13 requires the insurer to furnish the insured with forms for proof of claim.

Statutory Condition No. 14 gives the insurer the right to examine the person of the insured and in case of death to make an autopsy.

This brings us to Automobile Insurance. The Province of Manitoba passed an Automobile Insurance Policy Act, being Ch. 34, Statutes of Manitoba (1924). This is the first Provincial Legislation of this kind and is similar in design to The Fire Insurance Policy Act. The Acts of the other provinces are as follows:

Alberta—Statutes of Alberta (1923), Ch. 45.

Saskatchewan—The Saskatchewan Insurance Act (1925), Ch. 20, Secs. 204–220 inclusive.

Ontario—Statutes of Ontario (1924), Ontario Insurance Act, Ch. 50, Secs. 163 to 176 inclusive.

The Fire Insurance Policy Act does not apply to this Act. There has been considerable litigation as to whether the statutory fire conditions applied to a policy indemnifying the insured against loss by fire, and it has been held that fire conditions did apply. Section 5 provides:

1. No insurer shall undertake or effect any contract for a period exceeding fourteen days without a written application therefor, signed by the insured or his agent, duly authorized in writing.

This section is defective in that it does not say what the consequences will be either to the insured or the company if insurance is undertaken without a written application. It is suggested, but not decided, in the case herein-after referred to, that the policy may be void, in which case the insured would have no protection if the company chose to repudiate liability on that account.

The Ontario Insurance Act (1922) Section 198 (d), prohibited an insurer from effecting a contract unless the insurer had received an application in writing, and Ss. 2 required a copy of the application to be attached to and form a part of the policy. This section was discussed in the case of *Holdaway vs. British Crown Insurance Corporation, Limited*, 57 O.L.R., page 70. In this case the policy was issued contrary to the provisions of Section 198 (d) of the Ontario Insurance Act. There was no written application. It was held the misrepresentations as to the model or year

of the insured auto truck, as to the cost and as to the previous fire were material in fact.

The following is a question from Mr. Justice Latchford:

The present case is peculiar in this, that while Section 198 (d), (1) of the Act as amended prohibited the defendants from issuing the policy which they did issue, the plaintiff comes into court relying on that contract. Having regard to the prohibition, the question arises, was the policy void or only voidable? If, by reason of the prohibition the policy was void, the plaintiff is out of Court. It is trite law that a void contract can create no legal obligation. If the policy was voidable, it must be because one or other of the parties chooses so to regard it, and so to contend. Both plaintiff and defendants rest their respective rights on the policy, the plaintiff, however, repudiating responsibility for the statements appearing on its face, copied, as stated, from the application, representing to the company that it had been signed by the plaintiff, but, in fact, signed only by his agent not authorized in writing. The section appears to me to be enacted for the protection of both the insurer and the insured. If both choose, as in the present case, not to rely on the prohibition which it contains, it may, in my opinion, be wholly disregarded, and I can concur in the opinion expressed in the Court below, that the matters in issue fail to be determined on the provisions of the policy itself. On that basis I arrive, however, at a different conclusion.

Section 5, Ss. 3 of the new Manitoba Automobile Insurance Act is as follows:

Upon every written application there shall be printed or stamped in conspicuous type, not less in size than ten-point, and in red ink, the following words: "If the applicant knowingly misrepresents or conceals any fact or circumstance required by this application to be made known, the contract of insurance shall be void as to the property or risk undertaken in respect of which the misrepresentation or omission is made."

The insured might be led to believe by this notice or warning that his insurance is valid unless he knowingly misrepresents or conceals, etc., and that his insurance is valid no matter what mistakes have been made in answering the questions in the application if it could not be shown that he knowingly gave false answers. It is submitted that if the insured makes material mis-statements in the application, this would still afford a ground of defence to the company.

Statutory Conditions 1 and 2 are as follows:

(1) All statements made by the insured upon the application for this policy shall, in the absence of fraud, be deemed representations and not warranties, and no such statement shall be used in defence of a claim under this policy unless it is contained in the written application for the policy and unless a copy of the application, or such part thereof as is material to the contract is endorsed upon or attached to the policy when issued.

(2) If any person applying for insurance falsely describes the property to the prejudice of the insurer or knowingly misrepresents or conceals or omits to communicate any circumstance which is required by the terms of the written application to be made known

to the insurer, the contract shall be void as to the property or risk undertaken in respect to which the misrepresentation or omission is made.

Statutory Condition No. 1 refers to material mis-statements in the application whether knowingly made or not. This includes withholding of facts as well as mis-statements. To give an illustration, in the case of *Condogianis vs. Guardian Insurance*, 1921, 2 Appeal Cases, 125, in the proposal for Policy of Insurance, the question was asked: "Has the proponent ever been a claimant on a fire insurance company? If so, state when and the name of the company." The proponent gave one case and mentioned the date and the company. He had in fact made another claim against another company some years earlier, which he did not mention. Although the answer was literally true, the Privy Council held that the answer did not contain the whole truth and that the policy was avoided.

It would appear that Statutory Condition No. 2 applies to mis-statements in connection with which there is some degree of moral turpitude, and the policy would be void as to the property or risk in respect of which the misrepresentation or omission was made, whether such falsely occurred in the application or outside the application and even if not material.

The case of *Dworkin vs. Globe Indemnity* (1921) 51 O.L.R., 159, is of interest. This was burglary insurance. There was no written application. At that time Section 156, Ss. 5 of the Ontario Insurance Act, was similar in effect to Statutory Condition No. 1 above quoted. Sub-section 1 provided that all terms and conditions of the contract of insurance should be set out in full on the policy or by writing attached thereto, and that unless so set out no term of the contract or condition, stipulation, warning or proviso should be valid or admissible in evidence to the prejudice of the insured.

The following is a quotation from the judgment of Mr. Justice Hodgins:

There is in this policy no term or condition relating to avoidance for untruth or as to materiality such as Section 156 requires. If the untruth of the statement in the policy and that it was material was the only defence, I should be obliged to give judgment for the plaintiffs. I can see no reason for reformation, which is asked for by the defendants. But there still remains the defence based upon the untrue and material statements inducing the making of the contract and resulting in the issue of the policy of insurance, apart from that based upon its terms and conditions.

Another interesting automobile insurance case is *Dawsons Limited vs. Bonnin* (1922), Appeal Cases, p. 413. In the proposal, the insured was asked where the vehicle would usually be garaged. By inadvertence and innocently,

the insured gave the wrong address. It was held that the mis-statement was not material, but that the insured could not recover because the recital in the policy provided that the proposal should be the basis of the contract and made the truth of the statements contained in the proposal, apart from the question of immateriality, a condition of the liability of the insurer. Condition No. 4 on the policy was as follows:

Material mis-statement or concealment of any circumstance by the insured material to or assessing the premium herein or in connection with any claim shall render the policy void.

It is to be noted that the Court held the policy as void although the mis-statement was not material. It was said that it was purely a question of construction and as the truth of the answers were the basis of liability, the insured could not recover.

The ordinary form of application which has been submitted to us contained at the bottom the following:

I hereby declare that said automobile is and will be maintained in a safe and sound condition and that the material statements above made are in every respect correct and complete and I hereby apply for a contract of insurance to be based upon the truth thereof.

Can the decision in *Dawsons Ltd. vs. Bonnin* be made to apply in such an application? It would, no doubt, be argued that such a clause is a statutory variation and an attempt to get away from Statutory Condition No. 1, which provides that all statements upon the application shall be deemed representations and not warranties, meaning that the insurance company must prove that such representations are material before it could avoid liability, or prove them knowingly false under Condition No. 2.

It would appear to be a statutory variation because the effect of the clause is to make every answer not only material but an absolute warranty.

The guarantee that the automobile will be maintained in a safe and sound condition may also be looked upon as a statutory variation, there being no section in the Automobile Insurance Act similar to Section 9 of the new Fire Insurance Policy Act. It might be possible to insure an automobile only while maintained in a safe and sound condition with appropriate wording in the body of the policy which would leave the argument available that such words amount to a description of the risk which the company was undertaking. The effectiveness of the declaration quoted therefore is open to serious doubt.

The Statutory Conditions provide for appraisal or valuation in the case of disagreement as to the nature and extent of the repairs and replacements required or as to

their adequacy if effected or as to the amount payable in respect of any loss or damage; provided that such question shall be determined by appraisers. The method of appointment is provided for. The Act provides that the award of the appraisers shall be conclusive and no action can be brought until after the appraisalment.

Another serious question is, whether the appraisers are merely valutors or whether they are arbitrators. The distinction is important. Valutors go ahead and assess damages on their own initiative and without any form of proceedings. Arbitrators are a quasi judicial body, who must hear the parties, call witnesses, accept only proper evidence and act on correct principles. Arbitrators are subject to the Arbitration Act. The award can be made a judgment of the Court or set aside by the Court on motion made within six weeks from the date of the award. The broad distinction between "valuators" and "arbitrators" is that if the parties provide in advance for machinery to settle certain matters so that a dispute cannot arise but the thing is settled automatically, this is a valuation and not an arbitration. If, on the other hand, it is provided in the event of a dispute arising that a person shall be appointed to settle the dispute this is generally considered an arbitration. Under this rule, the so-called appraisers referred to in the Statutory Conditions would be arbitrators.

It is to be noted, however, that there is no reference to the Arbitration Act in the Statutory Conditions. In the Fire Insurance Statutory Conditions, the clause relating to arbitration specifically provides that the arbitration shall be subject to The Arbitration Act. The point is not free from doubt and is important, because if the so-called appraisers are merely valutors, neither party can insist on calling witnesses or being heard or represented. This is a matter which could easily be corrected by an amendment stating whether or not the Arbitration Act should apply and that the appraisers are valutors and not arbitrators.

The Ontario Act contains the following section which does not appear in the other Provinces:

Any act or omission of the insurer resulting in imperfect compliance with any of the provisions of this part shall not render the contract invalid as against the insured.

This was, no doubt, inserted on account of the doubts expressed in the Holderness case. The Ontario Act also provides for insurance without written application for a period not exceeding fourteen days.

The Ontario Act, Section 175, provides that—

Notwithstanding anything in this part contained, an automobile may be insured under a Fire Insurance Policy against loss or damage by fire as provided in Sub-section 3 of Section 89.

Sub-section 3 of Section 89 provides that a purely mutual fire insurance company incorporated and licensed in Ontario, may insure automobiles under a fire insurance policy on the "premium note plan" against loss or damage by fire, provided the same are specifically insured under a policy separate from that insuring other property.

The Saskatchewan Act provides that—

Notwithstanding anything in this part contained, an automobile may be insured under a Fire Insurance Policy against loss or damage by fire as provided in Sub-section 3 of Section 143.

Sub-section 3 of Section 143 is the same as the Ontario Section 89, Sub-section 3.

The Manitoba Act provides that the Fire Insurance Policy Act shall not apply to a contract to which the Automobile Insurance Act applies.

The Alberta Act provides that the provisions of the Alberta Insurance Act relating to Fire Insurance Policies and Schedule "C" to the said Act shall not apply to a contract to which the Alberta Automobile Insurance Act applies. What is the situation then if an automobile is covered in an ordinary fire insurance policy (not with a mutual company) say in a fire policy the wording specifically covering an automobile? Apparently the automobile conditions would apply to this item. There might be no written application. A question might arise as to the validity of the policy; also if there is no application the company would not, as regards material misrepresentations, be in the same position to defend as it would against the balance of the claim. The amount of the loss would also have to be adjusted by appraisers. From this you will see that an insurance company would be in a much better position with a separate policy for automobile insurance.

And now I have done. I hope this rustling among the dry bones of the law has not been too tedious. The law is constantly changing, not only in respect to insurance, but in respect to everything else. This is because we are living in a world of constant change. The insurance business is constantly changing to keep up with the march of progress. The other day Henry Ford was asked what would be the transportation conditions in 1950. He replied that all he knew about it was that it would be different. If you were asked what the insurance business is going to be in 1950, all you would be able to say is—and you will be able to say it with confidence—that it will be different.

And before concluding, I would like to warn you as young men and women, ambitious to make names for yourselves in the Insurance world—and what I am going to say applies equally to any business or any profession—in fact,

it is one of the essentials of making a success of life—and that is, that you must guard against becoming fixed in your ideas. A certain type of mind prides itself upon having an opinion or adopting a line of procedure and sticking to it. This is a mental attitude which means ultimate stagnation. It must be guarded against more and more as we grow older.

In "Principles of Biology" Herbert Spencer stresses this point when he says: "A living thing is distinguished from a dead thing by the multiplicity of the changes taking place in it."

When a man thinks he is able to stand still; to hold to any fixed opinion on any subject whatsoever, he is deceiving himself. Not to advance is to go back, and that is as true of the legal profession as it is of the insurance business.

Progress is not an accident but a necessity. The tide of human affairs is ever moving. A single breaker may recede, but inevitably, inexorably, the tide moves on.

People who express one opinion today and another tomorrow on the same topic are very frequently accused of fickleness, of instability, but no well-informed person has ever declared change of opinion to be inconstancy. If we progress, that is to say, if we are wiser today than we were yesterday, out of yesterday's experience we will undoubtedly adopt our methods to suit our new viewpoint. If we are NOT wiser today than we were yesterday, it is because of only one thing—it is because we have failed to THINK, and, unfortunately, it is the fatal tendency of mankind, once he has formed a positive opinion, to cease to think about it.

World conditions are continually in a state of flux. Many solutions of world problems which were worth considering a few years ago are now valueless because the world has moved on. Alterations must be made, and all great alterations in human affairs are produced by compromise.

What often appears to be a complete change of viewpoint may be merely a slight shifting of the angle of vision to suit the altered position of the thing we view.

Carry that necessity of constant adjustment into your business life. Normal progression of events will inevitably change your opinions. Adjust your angle of vision to the new conditions and thus eliminate apparent distortion and seeming incongruities.

Rating Schedules

RATING SCHEDULES

By V. D. HURST

Rating Officer, Western Canada Fire Underwriters' Association

In asking me to give you a talk on rating, it was your Committee's desire that I should not dwell upon any historical aspects of rating, but rather that I should endeavor to take up with you the many factors which have to be taken into consideration when establishing rates for buildings; so I will discuss in detail the schedule which we apply to the most common and representative class that we have to deal with, viz., the brick, wood-joint construction mercantile store or warehouse building.

Before doing this, however, I feel that I should—for the benefit of those who did not have the opportunity of hearing my former address entitled "Evolution of the Rating Schedule," or reading an account of same as published in the Institute proceedings for the season 1923—mention that the rating system which we use in Western Canada, in fact throughout Canada, is known as the Universal System. I would again emphasize the fact that it is in reality a system, and not simply one specific schedule. It has been applied in Eastern Canada for twenty-four years, and in Western Canada for probably eighteen to nineteen years, with apparently good results. Only a few years ago the Province of British Columbia adopted it.

The system embraces at least five basic principles, the first one taking care of the inspection, rating and classifying of the cities and towns that maintain certain forms of Municipal Fire Department and Waterworks Protection. The original universal method of classifying the cities and towns and establishing a basic key rate has been superseded by the National Board of Fire Underwriters' Schedule for this purpose. In the United States the cities and towns are classified under this schedule in ten different grades. This extensive classification is necessary on account of the rating systems that are largely used, requiring special basic rates as a starting point for their rate estimates for each class. In Canada, however, we differ, as our classification only has to do with the rating of dwellings and three-year risks, and an individual key rate is calculated for each city or town which is used in the promulgation of rates for mercantile and special hazard risks. In Western Canada there are many cities that are considered as first class, yet with different key rates. Insofar as the protection to dwellings or three-year risks is concerned, one city is probably as

good as another, but when it comes to giving adequate protection to the larger high-valued mercantile or manufacturing properties, some cities have a more efficient waterworks department or a better manned fire-fighting force with more reliable apparatus.

The one question to consider is: How do we arrive at such key rates? It is not my intention to give you any lengthy explanation of this phase of the Board Office activities; still, I would like to mention that in all rating work, whether it be the establishing of a key rate for a city or town, or the rate for a mercantile or manufacturing risk, we have to start with what may be termed an ideal condition. After a long study the National Board established certain standards which they found should apply to cities of a given size and population and taking into consideration other features, such as the lay-out of the city, water mains, building, electrical and other bylaws that should govern—in other words, to bring about what would be a standard condition in a city from a fire hazard point of view.

Each variation from this standard is considered to be a defect, and so we survey our Western Canadian cities and towns to ascertain how much they deviate from what we know to be good standards for such places, and in that way estimate their various deficiencies and establish what we term a key or basis rate.

There are five thousand points to be considered in the National Board Rating Schedule for cities and towns, 1,700 of these being under the heading of Adequate Water Supply and its distribution through mains and hydrants throughout the city, the fire department and the necessary equipment taking up 1,400 more and the fire alarm system 550. Police protection is also essential and fifty points are allotted under this heading. Building bylaws are quite an important item, because without such laws all descriptions of buildings might be permitted in the congested downtown portions. Most cities have established definite first class and second class limits, so that hazardous buildings cannot expose or introduce a conflagration hazard. Proper care of explosives and inflammables are allotted 200 points; electrical bylaws 150, and natural and structural conditions 750.

Natural conditions include adverse climatic conditions, severity of cold weather, excessive hot and dry weather; velocity of wind, snow falls, etc. Structural conditions embrace proper street widths, paving of streets, accessibility of blocks and the height of buildings, also possible conflagration due to existing buildings. So, when all of

these factors have been analyzed by our special protection engineer, we have arrived at the basic key rate.

The next principle is that of rating the building. We again have to take an ideal building as our standard, i.e., a building which experience has shown should be constructed in order to make a good risk from a fire hazard point of view. The more the building departs from the standards that have been laid down, the poorer the risk becomes from a fire insurance standpoint, and the more likelihood there would be that a fire would make rapid headway and get beyond control. Taking our rating schedule I will go through the items in the order they are listed.

The first to be considered is the wall construction. The building should be supported by its own independent walls, heavy enough to withstand the loads that such building would be subjected to. A wall is required to carry its proportion of a maximum live load and dead load and to be able to stand upright; to withstand wind pressure, vibration, and form a solid fire wall. Furthermore, the building might be originally designed for one purpose, and through force of circumstance, the occupancy may change and greater loads be carried than originally anticipated. These are points that architects deal with when designing a building, but general experience has shown that a heavy wall stands up practically anywhere better than one of lighter construction, and, therefore, our standards, while they are probably more severe than the minimum ones which city bylaws permit, are based upon good practice.

The definition of an independent wall might be termed as an exterior or outside wall that is self-supporting. It can either be a bearing or non-bearing wall. By "bearing" it is meant that the wall would support a portion of the building; i.e. any floor joist, roof beams or girders, as well as the live load of the occupancy for which the building was designed. An inspector checking up a wall would obtain the thickness of same at all floors, then by adding the total thickness and dividing by the number of floors, estimate the average. If the latter is less than our standard permits for a building of a given height, a charge would be made for each 4-inch deficiency. If a building was over three stories in height and the average thickness was less than twelve inches a further charge would be added, because an average of less than twelve inches for a building in excess of three stories would be a non-standard wall.

Often two buildings adjoin each other with two independent walls and, while each of these walls might be

lighter than our standard calls for, still the fact of each helping to support the other would be considered better than one standing alone. Economic conditions have forced the recognition as a fire wall of one that supports part of the loads of two buildings and which is known as a party wall. Such a wall carries a double load and should be heavier, or of thicker construction than any independent wall. A wall of this type, when deviating from standard, is a more serious defect and for each one inch deficiency a charge is made. If again, the wall was less than twelve inches thick in any portion, a surcharge is added.

A party wall's function is to hold the ends of the floor joists and the beams on the opposite sides. When the wall is less than twelve inches thick, such floor joists practically meet each other through the wall, as joists are usually anchored four inches in the wall. We have many cases of failure of party walls, due to the building on one side having the inner posts or centre support burnt through or collapsing, causing such joists to fall, and thereby having them act in the form of a lever, not only tearing themselves out of the wall, but destroying the wall at the same time and allowing a fire to pass without obstruction from one building to the other.

In rating buildings these are the two walls we have most to do with. There are, however, other walls, such as division walls that divide a building into different sections, and curtain walls which simply enclose the ends of a building without carrying any loads.

All walls, when treated as fire walls, should be parapetted, i.e., extend up through the roof space and above the roof of the building, projecting above the roof level at least one foot. Our schedule makes a charge for buildings where no parapet is in existence. This, of course, refers only to independent walls, as no party wall without a parapet would be considered as a cut-off. When a parapet is in excess of one foot it is considered better than standard, because the higher the parapet the less possibility of flames passing over same and gaining access to the adjoining roof. If these high parapets are built around all sides of a building a credit is given, depending upon the height of such parapet.

The schedule makes provision for buildings that have excessive wood or glass fronts. Often in down-town districts there are buildings practically composed of glass on one or two sides and the possibility of fire breaking through from one floor to the next is always prevalent when so much glass or woodwork is in existence. The exposure

hazard to such buildings from surrounding premises is also greater.

The standard height for a brick-joist building is three stories. Mill buildings, owing to their heavier and slow-burning features, are allowed four stories as standard, and fire-resistive buildings, with their incombustible construction, five stories. Any increase in height above these standards is charged for, because the higher the building the more difficult the fire department finds it to cope with fires. If a building is higher than standard and of rapid burning construction, a fire invariably gets beyond control. We have had many local instances of this.

If, however, a building is better than standard, i.e., less than three stories in height, we allow a credit if two stories, and a greater reduction if only one story. When a building has no basement, a reduction is allowed, as it means that there is one floor less, and, as we know, being out of sight, housekeeping conditions are not always the best, and basements often are places where fire breaks out only too readily.

A building should have at least one side accessible to the street, otherwise it is inaccessible for fire-fighting purposes. The standard street is 66 feet in width in Western Canada and a scale of charges applies for streets more narrow. Fortunately, in a new country such as this we are very seldom called upon to include any charges under this heading. If a building is situated in the rear, having no street frontage and is practically inaccessible, a much heavier charge is imposed. If streets are unpaved and it is impossible for the fire department to reach the premises at all times of the year, a charge is included. We know that certain times of the year, particularly in the spring and fall, some buildings are almost inaccessible, due to this cause. If the building faces on a street having an excessive number of street wires at the front—both electrical and telephone—which would interfere with the fire department handling their apparatus, a charge is included. Fortunately there is not the congested street wire hazard in Western Canada to the same extent as in the older parts of Eastern Canada and in the States.

If a building has a wood cornice constructed on same, dormer windows or verandahs that add inflammable finish, which would prove a menace in case of fire in adjoining property, charges are made, depending upon the amount of woodwork and the possible hazard. Wood cornices are becoming a thing of the past as most city bylaws prohibit them. At one time a whole city block used to have cornices that were practically continuous, with no fire stops in same,

and a fire in one building meant that it would rapidly communicate to all.

We next study the interior of the building. The standard for the average mercantile store building calls for lath and plaster finish throughout. If, instead, wood siding or "V" joint is used for either the walls or ceiling, a charge is included for each. Often it is the practice to have a high varnish finish on such woodwork. This is particularly hazardous because varnish is simply a dry mixture of resins and, with the application of heat, immediately blisters and creates gas, and a fire will travel along walls and ceilings that are varnished with greater rapidity than either a plain or painted surface, because the color pigments in paint to some extent cause the linseed oil and other oil compositions of paint to burn more slowly.

Wood partitions are very prevalent in store buildings and in some risks excessive wood shelves or bunks are constructed for carrying stocks. Partitions, in addition to creating combustible material, subdivide the building into different sections, and often make it impossible for the fire department to get a hose stream to the seat of the fire; furthermore, partitions often mean that a fire can gain considerable headway before it is detected. We, therefore, charge for wood partitions or excessive wood shelving or bunks for each floor on which they are erected.

If the interior of a building has open finish, i.e., the brick wall finish and the floor joists not sealed underneath, but left as what is termed "open-joist finish," it is better than what is usually called for under the standard and a special credit is allowed individually for each open wall and ceiling. One of the worst hazards to be contended with in a brick-joist constructed building is the concealed spaces that are created by the strapping and lathing of the walls and covering the under part of the floor joists up, and these concealed spaces have caused fires to spread unseen throughout buildings to a great extent. In the Clarendon building fire, in Winnipeg, the flames travelled from the basement up through to the second floor in the concealed space between an iron column and the outer ornamental boxing around same. The mill-construction building was largely designed to eliminate the wooden-joist construction with its concealed spaces.

When open joist woodwork is lime-washed, a further credit is allowed, owing to the lime-washing having the tendency to fill the minute open pores or rough surface of the woodwork and thereby retard the travel of flame along the surface of same.

Floors should be two inches in thickness, i.e., generally one-ply of rough flooring, which is laid when the building is being constructed, and the finished wood-wearing surface floor when the building is completed. Items in the schedule give credit for the waterproofing of such floors and, if built in excess of two inches in thickness, are considered as slightly better than standard. Often in warehouse buildings the grade floor, i.e., floor above basement, is of either concrete or mill-construction. Either of these types of floors are better than the light wood joist construction and a reduction is allowed. If, however, there are unprotected openings such as stairways, elevator holes, or chutes, in same, these unprotected openings nullify to quite a degree the protectiveness of such floors from any basement fires, or fires extending from grade to basement. The credit is, therefore, greater if all floor openings are protected with stairway and elevator shaft walls, having fire doors on the openings, making a type of enclosure affording equivalent protection to any part of the floor itself.

The smaller the building the more readily fires can be combatted. A reasonable standard has been adopted of 2,500 square feet and excessive areas are charged for. The greater the area the more severe the loss, because large unbroken areas of buildings mean fires can make such headway that the possibility of total loss is materially greater. If a building is of excessive height, i.e., above standard, the area charges are further increased. Provision, however, is made for allowing reductions from the area charges for curtain or cross division walls that not only sub-divide the building and break up the area, but also strengthen the structure. When the building is of lower height than standard, reductions are allowed under the area charges, and if the area is very small, a special credit is given.

Any frame communicating additions with the front building are considered as part of same and must be provided for in the rate estimate. The charges are based upon the total wall area of such additions and, if metal-covered, the charge is reduced 50 per cent.

Vertical openings form one of the internal defects and, unless well protected, cause a fire to extend from floor to floor with great rapidity so that it soon gets beyond control. Each unprotected floor opening acts as a chimney in forming a good draft.

In rating a building we look upon the most serious or defective floor-opening as the most hazardous, and charge for it according to the scale of charges given in our

schedule, which, I might say, covers practically every possible type of shaft.

A second unprotected or defective floor opening is not looked upon as a full hazard, nor would additional ones be considered as such, therefore the charges are graded. For the second floor opening only one-half of the regular charge would apply, and for each additional floor opening, one-quarter.

Standard shafts for either stairways or elevators are of brick construction, with Underwriters' labelled fire doors on all openings, provided with ventilators at the top, or metal frame skylights with thin ordinary glass, which under excessive heat generally breaks, thus helping to draw off the heavy smoke and explosive gases that accumulate in these shafts.

Chutes, vents and dumb waiters also come under the heading of floor openings and are penalized according to the number of floors pierced. Well holes also are serious defects. It is rarely that any steps are taken to protect these, and even with the stairways and elevators adequately enclosed with a well hole in existence, the floor opening hazard would still be very great, and the charges accordingly high.

The standard skylight is a hollow metal frame with one-quarter-inch wired glass. When either wooden frames and light glass or ordinary glass in metal frames are used, extra charges are included, depending upon size and construction.

All unprotected iron or steel work in buildings should be reinforced or protected by at least two inches of incombustible material, such as cement plaster, reinforced concrete or terra cotta tile. This protection should extend to the top and bottom caps of the columns or, in the case of "I" beams, to the bottom flange and the sides. When not protected charges are made.

Cast iron as a building material is fairly suitable when used for columns only. Its composition is of a granular nature, and very brittle. It contains a considerable amount of carbon, has low tensile strength in resistance to breaking by a pull and too low elasticity. When there is only a direct vertical crushing load to carry, such as a column is required to, it is suitable for that purpose. It is never used for beams. Under heat, if suddenly cooled by water, it is liable to break. Often these columns are cast poorly. They are all hollow, and if the centre core sand shifts slightly, sometimes one side is thicker than the other, and consequently, one part is weaker. However, if they are pro-

tected against excessive heat, as above outlined, no charge is made.

Wrought iron is not as brittle as cast iron, there being very little carbon in its composition. It seems to be composed of threads of fibre of metal lying alongside each other, so may be said to have a fibrous structure. When heated it has a tendency to twist, due to the softening of material, thus reducing its resistance to tension and compression.

Structural steel is soft or flexible, and is made originally from either cast or wrought iron, and according to the degree it is heated and to the amount of carbon in its make-up, and also to the tempering it receives, forms its consistency. Steel work acts similarly to wrought iron and should be protected. If not protected, there is a scale of charges to cover the number of beams or trusses used.

No charge is made for a brick chimney when built upon a solid foundation continuous from the ground or basement. If, however, a brick chimney is built upon wooden brackets, a charge is included, because, in case of the brackets giving way, the chimney is liable to crack and might form quite a hazard. This type seems to require repairs more frequently than a stationary one. Terra cotta or drain pipe tile is sometimes used, and while this is better than metal or stovepipe chimney, still it is far from being a standard chimney and is penalized to quite an extent. Under heat tile chimneys often crack. Stovepipe chimneys, even the best installations, are looked upon as extremely hazardous and a stiff surcharge is added for same.

A roof covered with built-up layers of tarpaper, and surfaced with a heavy coating of tar and gravel, is accepted as standard, also the approved different types of composition or asbestos roofing now upon the market. Shingles are penalized to quite an extent. As we all know what conflagration and exposure breeders these are, I do not think any further comment need be made under this heading.

When a building is constructed with a mansard roof, which, I might say, is the top portion of the outer wall or walls of a building and which are sloped to the actual roof above, the interior of such mansards are usually finished with wood or lath and plaster and the exterior faced with wooden shingles or metal. These frame walls are charged according to their actual construction and the lineal feet of same with a limit for one side. If all sides of the top story are of mansard construction a higher extra charge applies. The most hazardous type of mansard I have ever seen in

the West was a four-story metal-covered mansard on the top of the old Leland Hotel in Winnipeg, which was destroyed by fire some years ago.

Penthouses or bulkheads are additions mainly of frame, metal-clad construction and erected on the roof of a building to house elevator machinery or enclose the top of the stairway, giving access to the roof. Janitor's quarters on some of the larger buildings are sometimes housed in pent houses. Charges are imposed, depending upon the size, height and construction of such roof structures. These are often a means of causing exposure fires from adjoining buildings. One of the most recent cases experienced was the Ashdown fire in Saskatoon. The pent house of the adjoining building, Hutching's Block, was certainly the means of causing the fire to enter the upper portion of that building at the rear and helped to cause a severe loss. In the same city a year ago when the Drinkle Building was destroyed, the pent house in the adjoining fire-resistive Grain Exchange Building, being of inferior construction to the main building, also caused a heavy loss and permitted the fire to enter this building through such roof addition.

The roofs of all buildings require drainage. Some have a slope, possibly one foot in twenty to the rear. Others drain to the centre of a building, the water being carried away by internal drain pipes. The slope of a roof is generally known as the hopper, and, when we have a ceiling on the top floor, this sloping of the roof creates a roof space tapering from one foot to possibly three, four or five feet, depending on the area of the building.

Roof spaces are quite serious defects and fire is very difficult to combat when gaining access to same. These concealed spaces are charged according to height, but with a minimum charge, as it is recognized that there is a minimum hazard irrespective of the height. A fire often gains access to the roof space at the top of floor openings or elevator shafts. A severe penalty is imposed when the elevator shaft communicates with roof space, and we do our utmost to have the tops of these shafts thoroughly protected and cut off.

The preceding are the structural features that have to be taken into consideration. There are, however, factors other than building construction that embody the service required for maintaining a building. These are: Lighting, heating and any of the different forms of power that might be required. The standard form of lighting is electricity. If the wiring is all in approved metal conduit, we permit same without extra charge because wiring in conduit is not liable to injury and generally can be maintained in a

satisfactory condition indefinitely. The most common form of wiring for the smaller mercantile buildings is the open knob and tube type, where the wiring is open but supported where passing through the joists by porcelain tubes or securely attached by porcelain knobs. The charge in this case for a standard installation is two cents.

In cities or towns where risks are rated under itemized rating schedules it is not often that we encounter other than electricity for lighting, but, if so, charges for the more hazardous forms are applied.

Steam or hot water heating with boilers safely installed are recognized as the safest heating appliances to use and no charge is made for either. If hot air furnaces are used a charge is made for each one, the charge for the first being higher than for the additional ones. Hot air furnaces introduce a different form of heating with the metal ducts conveying hot air to the different parts of a building, and are not considered absolutely safe. Stoves also have to be charged for, depending upon the class of risk as to what the extra would be. Stoves in garages, wood-working and painting establishments, or other hazardous locations, are penalized to quite an extent.

The next principle in the system of rating is that of dealing with the occupancy. Occupancies are classified according, first, to the hazard which they introduce into the building which houses them. Under this item an elaborate occupancy table has been compiled, which classifies each of these occupancies according to what previous experience has shown they constitute, i.e., certain tenants might not add any additional hazard to the building such as offices, doctors and dentists, and what are termed other light, non-hazardous occupancies. For firms that carry mercantile stocks, these are graded according to the susceptibility or burning degree the stock introduces to the building, and which might be the means of causing fire to rapidly spread through the premises. For other stocks that are considered only ordinary combustible or non-hazardous, the tenant is looked upon as an ordinary mercantile occupancy. Where hazardous or rapidly combustible stocks are kept, the classification is for a hazardous mercantile occupancy.

Then again, for firms that do a certain amount of light manufacturing work, these are subdivided according to the actual process work carried on, the number of hands employed, and the question of power for use of these manufacturing firms is one that has to be charged for, depending upon what it consists of.

The charges for the light manufacturing occupancies grade with the total number of hands, but when rating a

building that contains more than one concern, the schedule calls for the most hazardous or the highest-rated occupancy in the building to be considered as the basic charge, and the other tenants are included, not at the full charges provided in the table, but at special charges under the item of extra occupancies.

When more than one firm moves into a building, the control or supervision of a building becomes subdivided, and, consequently, additional concerns not only cut up buildings with light partitions and other means of segregating them, but the care and supervision of the space they occupy cannot be exercised to the same extent by the owners or the building management, and with limited space at their disposal, the tendency is to have congested storage or working conditions in same.

After it is determined what hazard the occupancy bears to the building rate estimate, the question of analyzing the contents or stock to ascertain its susceptibility to damage from fire, heat, water or smoke, has to be estimated, because stocks vary to a great extent, and in case of partial losses this is demonstrated.

Stock rates are always higher than building rates when the buildings are situated in the protected cities and towns, i.e. where waterworks and fire department are maintained, and the stock losses as a rule are out of all proportion to the building losses. It seems that the better the water supply, pressure and equipment that is used in fires, the greater the loss amounts to in stocks, due, principally, to water damage. Our occupancy table, in fact, every rating system, carefully takes these factors into consideration. Non-susceptible stocks to other than straight severe fire conditions, receive much lower charges.

The schedules provide for certain reductions for upper floors of mercantile buildings being used by private families for dwelling purposes. Dwellings above grade floor are in the nature of permanent watchmen residing on the premises, and while they are not as reliable as a watchman service with the patrols throughout the building at regular intervals, still the presence of people residing in buildings has, in many instances, been instrumental in detecting the fire in the early stages and reducing fire losses.

The fourth principle is that of internal protection, viz.: the equipping of a building with first aid fire protection or other protective features, and thereby making it better than standard. Under the item of "Protection" our schedule provides reductions for the installation of iron fire escapes installed on buildings with landings provided on each floor, and with access to the roof. These fire escapes, in addition

to providing egress for inmates of the building, serve as permanent ladders for the fire department, and much time is often saved by the firemen immediately using them. Furthermore, they are better structures than the average fire department ladder for the firemen to operate upon, and being more rigid, and with the landings on each floor, allow the firemen more activity.

The installation of some form of first aid appliances, such as Underwriters' labelled two and one-half-gallon extinguishers, fire bucket tanks or other approved portable appliances, when installed in sufficient number and throughout a building on all floors, including basements, secures a reduction, because an ounce of prevention means a lot in the early stages of a fire.

A reduction may also be obtained for the installation of an internal standpipe and hose system, when installed according to standard requirements. Having a standing water supply and hose available on all floors of a building has, in many cases, prevented serious losses.

In the larger plants, where large values are involved and night supervision is required, often watchmen are maintained, and in order that these men supervise and patrol all parts of the premises they are equipped with portable clocks, stations being located throughout the buildings. Our requirements call for hourly rounds nights, Sundays and holidays, and two hours during the daytime when the premises are not open for business, or, in the case of a manufacturing plant, when it is not in operation. More reliable watchmen supervisory systems are the electric detector clocks, which are located generally in the vault, and stations wired from all parts of the building are connected to same. A larger reduction is allowed for the latter form of protection than the former.

The most reliable form of supervisory system is that furnished by the Dominion Electric Protection Association's system. Their special stations are installed throughout a building, and these are connected direct to the company's central station. Each hour the watchman's rounds are recorded, and, in case of failure, the watchman is immediately checked up either through telephoning first, or through the company's representatives visiting the premises. There are many cases where watchmen are incapacitated in some manner, and the company's representatives patrol the premises for the balance of the night, or until other arrangements can be made. In addition, these stations act in the nature of fire alarm boxes installed throughout a building, and we allow the greatest credit for watchmen with this supervisory service.

Provision is made in the schedule for a building being better than standard, from an accessibility point of view. The standard calls for a building to face on a street at least 60 feet wide and when buildings are isolated, or on street corners, or where the building is approachable to the fire department on the sides and rear, special credits are allowed. Twenty-five feet clear space is considered essential, and this enables the fire department to operate freely from a fire-fighting standpoint.

The last principle in rating is that of exposure. Buildings expose each other under varied conditions and an intricate table has been compiled, which provides scale charges for the distance buildings are separated from each other, whether there are window openings directly opposite and exposing, whether buildings are adjoining but with a blank fire wall between same, and then again for buildings that adjoin but communicate, the openings, however, being protected by Underwriters' labelled fire doors.

Under the item of exposure it is often possible for the assured to minimize severe exposures if there are communicating openings in fire walls, by installing double fire doors, i.e., one on each side of the brick wall opening, or if it is a case of the side or rear window openings being exposed, by protecting these with Underwriters' labelled wired glass and metal sash.

The tables used provide for every phase of exposure, including possible falling wall hazard from higher buildings to lower ones, and also when only low or moderately high buildings expose each other, or for brick buildings exposed by more combustible frame or metal-clad structures.

From the foregoing it will be seen that fire insurance rating has developed into a scientific problem, and while I have only dealt with the average brick, wood-joint construction building, there are other schedules which provide for either frame or metal-clad buildings, more superior buildings such as mill-construction and fire-resistive buildings, and lastly, special hazard risks, which require special schedules to deal with buildings that are specially constructed to house their occupational needs. The same close analysis has, however, to be given to all of the five principles of rating enumerated.

Casualty Insurance

CASUALTY INSURANCE

By PAUL HORST

Casualty Manager, Canadian Indemnity Company

When Mr. McPherson asked me to talk to the members of the Insurance Institute of Winnipeg on the subject of "Casualty Insurance," I reluctantly gave my consent to do so, because I felt that the subject was too broad for me to cover or attempt to cover in the time allotted. I would very much have preferred to talk to you on any one of the many branches of the business, particularly with those with which I am more familiar. I could have made a much more interesting address on the guarantee business or one of its branches, and one of more practical value to the students of the Institute. Mr. McPherson used some rather unfair sales arguments in inducing me to accept his invitation to talk on so broad a subject. He earnestly stated that "You do not need to say much as no one there will know anything about the casualty business, so that anything you may say will not be questioned." To find that there are in the audience a number of the best casualty men in Winnipeg embarrasses me quite a little. I can only hope that they will be charitable in their judgment of my remarks. In the time at my disposal I will be forced to limit my remarks to a brief survey of the development of the casualty business in Canada, and the great need of educational work to develop better understanding of the business by the insurance fraternity and the public. In referring to those engaged in the casualty business as a "fraternity," I may be using the word improperly. However, understanding of the business by those engaged in it and an appreciation of the difficulties of our competitors will ultimately produce a brotherhood in this business as in any other.

The casualty business in Canada has barely attained its majority. Mr. W. H. Hall, general manager of the Canadian Surety Company, who is here tonight, can easily recall the time when there was no such thing as "casualty" insurance. The various classes of insurance now termed "casualty" insurance were for many years called "sundry" insurance, in fact, I think it was only in 1919 that the Superintendent of Insurance introduced the term "casualty" insurance into his annual reports. Some very interesting information is contained in the reports of the Insurance Superintendent for the Dominion. I have relied exclusively on the Government reports for the historical facts which follow.

In 1904 there were twenty-two companies in Canada writing some of the classes of casualty insurance, ten of them had Canadian charters. There were five British companies and seven United States companies in the casualty field. The business developed rapidly and has shown steady increase in volume, doubling itself regularly in five-year periods. The companies engaged in the business kept the pace set by the business and exist today in such numbers as to preclude reasonable expectations of profits for all concerned with the limited amount of business that there is to be done. In 1924 we had in the casualty business in Canada one hundred and fifty-five companies, of this number there were thirty-five Canadian companies, forty-one British companies, seventy-nine foreign companies, and of the seventy-nine foreign companies all but a few are from the United States. The ownership of the Canadian companies, strangely enough, has not followed the precedent established in the organization of the first casualty companies. First owned largely at home many were subsequently owned and controlled from Great Britain or the United States, although most of such companies have not only Canadian charters but Canadian names. In twenty years there was an increase of six hundred per cent. in the number of companies operating, and when the figures for 1925 are prepared I am quite sure there will be still further increases, as frequently I hear of some fire company that has commenced to write casualty insurance. Statistics show the interest that the fire companies have in casualty business, as out of the total number, one hundred and fourteen companies write fire insurance as their main line.

Development of premium income might be worth while considering to show you what business there is to be had to have attracted so many companies to the field. I hesitate to give the figures as figures are not usually of interest, but they will effectively show the development of the business. I would ask you to note how consistently the loss ratio follows the increase in volume of business. The premium income in all of the casualty lines that were written in 1904 was \$2,238,000.00, with losses sustained of \$1,085,000.00. \$971,000.00, or substantially 50 per cent. of the business was written by Canadian companies. In 1909, five years later, the business had almost doubled itself. Premiums were \$4,400,000.00 with losses of \$1,900,000.00. The Canadian companies then wrote \$1,900,000.00, holding their ratio of the business or substantially so. The classes of insurance, however, had begun to increase in number. In 1904 there were only ten reported casualty lines, the principal classes being sickness and accident, guarantee insurance, contract insurance, plate glass, steam boiler,

inland transportation, hail insurance, rain or weather insurance. In 1909, five years later, there were seventeen classes.

By 1914 automobile insurance had become an important class in the casualty business. This class has played an important part in the increase in casualty premiums. In 1914 premiums in all classes had reached \$9,000,000.00 with losses of \$4,400,000.00, showing approximately the same ratio of increase in premiums and losses but with no additional classes over 1909. Canadian companies, however, had not maintained their ratio, writing only \$3,700,000.00. By 1919, after the war, the business had reached \$16,000,000.00 in premiums, losses being \$8,000,000.00, Canadian companies writing only \$6,800,000.00. By this time there were many more companies in the business but classes remained the same. In 1920, the following year, there was the largest increase of premium in any single year. The premium increased in that year from \$16,000,000.00 to \$25,000,000.00, an increase of over \$9,000,000.00, the increase equalling the total volume of business written in 1914. Since 1920 there has not been much change. To complete the sequence of five-year periods, we find that in 1924 the business written was \$23,000,000.00, losses being \$11,000,000.00, Canadian companies writing \$7,800,000.00, or approximately one-third, considerably less than their ratio twenty years before. There were twenty-three classes of insurance, many new lines having been introduced in the previous five years. In consequence of this very rapid development of the casualty business in Canada many companies were attracted to the field. They did not have a Canadian organization adapted to the casualty business and many were not equipped from head office experience to go into the casualty business. However, it was a new business, everyone in it was learning and all felt that the time to get in was at the beginning. The large number of companies interested produced what has developed into a very difficult situation. There is not enough business to go around. With one hundred and fifty-five companies dividing only \$23,000,000.00, no one company could get very much. Expense ratios increased, the claim ratio remained fixed. To get business, commissions were increased and are now too high, ranging from 20 per cent. to 30 per cent., and with claims averaging 50 per cent. not much was left for the company for head office and branch office supervision of underwriting and claims and other expenses of business, including taxes and license fees. The latter, particularly, is very high in proportion to the amount of business written. I do not think there is a company operating in Canada in the casualty business which if it charged up all

of its expense incurred in the casualty business, would not show an expense ratio of 50 to 60 per cent. The fire companies get away from this as they are able to distribute a large part of their expenses to their other departments.

Competition resulted in further difficulty. In order to get business the companies, not only increased commissions, but by reason of misunderstanding and ignorance of the hazards they were assuming, reduced premiums below the established rate in the hopes that by good underwriting or good luck they would get some business and escape losses and make a little money. This condition has effected the Western Provinces, particularly during the last five years. Eastern Provinces by reason of the larger volume of business there have not felt it so much until the last two years when, particularly in the automobile business, competition has been very keen. Competition by forcing down rates has resulted in the reduction of premium income, but the amount and number of risks have increased. In 1920 the largest volume of casualty premiums was written and the following years up to 1923 there was little variation. 1923 premiums were larger than those written in 1924, but that does not mean that there was less business written. The amount at risk had increased. A few examples will show more clearly the results of ignorance on the part of the underwriters of some companies and the danger to those who have an established casualty business.

Two years ago I had a contract bond submitted to me from our Calgary agency for a contractor whose reputation as a builder was not good. He was engaged, in addition to his business of contracting, in a merchandise business, and the mercantile agencies reported him to be practically insolvent. I declined to write the bond and a short time after I lost rather a substantial line of fidelity bonds at renewal date. The next time I was in Calgary, I enquired of our agent as to why we had lost the fidelity bonds, and was told that a company, whose name I will not mention, had undertaken to write the contract bond which I had declined, on the condition that they were to be given the next good fidelity line that the agent secured, and there being no new business of any consequence in sight, the company was given our line of fidelity bonds. It so happened that the contractor completed the work without loss to the company, but in justification of my underwriting in declining the bond. I might add that he failed in business and made an assignment within a few weeks after the work had been completed.

The rate of premium we receive for fidelity bonds on our public officials provides another good illustration of

competition. I am convinced that if experience was tabulated on this class alone that the loss would equal 100 per cent. of all premiums written. In my opinion the rate of premium for this class of business should not be less than 50 cents. The tariff rate was for many years 30 cents, but this was finally forced down by a prominent non-tariff company offering to write some of the select lines at 25 cents. The Association companies then promulgated a rate for all Government business of 25 cents. By very careful selection some of the companies may escape losses and get a profit. In Alberta there has been most strenuous competition and examples of rate cutting for the government business. In one line in which I was sufficiently interested to ascertain after it was placed the name of the company and the rate, I learned that the agent securing the business had not only succeeded in having the company cut the rate but had rebated his commission. It would have been a criminal offense on any other business, but I suppose the Provincial Government could hardly impose a penalty upon an agent for an act from which they had received benefits.

Business, because of such competition, has been at a standstill. Competition of the right sort is good for business, but under existing conditions practically all companies and their agents have been so busy protecting their business that they have not had any time to spend in the development of new business. The amount at risk increasing without a proportionate increase in premiums, there is great need for increased care in underwriting. If you can pick business carefully enough, it is possible even at the reduced rates to get away with a reasonable loss ratio. Many new companies will write lines that they know are not good to accommodate an agent and to get him to give them other casualty lines. Most of the new fire companies in the business have wide agency connections and they naturally look to their fire agents for business. This same agent has, of course, agencies of casualty companies and many of the agents begin to trade on their business for higher commissions. In many cases strict tariff companies in the fire business yield to the temptation to pay excess commissions to get started in the casualty business. Many of the fire companies have operated a casualty department without trained men. They hesitate to experiment in new lines, preferring to specialize in lines where some casualty company has already underwritten and approved the risk. Being inexperienced they do not have the ability to produce new business by creating an increased demand for their policies from the buying public. They therefore work serious hardship on the companies writing casualty lines

whose employees are hard put to make up such losses in premium income from, what I personally regard as, very unfair competition.

Development of business should be along entirely different lines and this Institution is, undoubtedly, in a position to do as much as any individual agency in Western Canada to improve conditions. Do this through education. Education in the casualty or any other business is needed first by those most interested. In this instance, first the company's employees, second the agents, and by their combined efforts the third and most important class, the general public. Certain results are inevitable. Education will produce understanding which will result in co-operation. The combined knowledge of the various companies will produce uniform, equitable contracts and rates. Uniform contracts, equitable rates, cannot help but produce fair competition. Fair competition and vigorous solicitation will produce a number of results, but most important of all, it will establish confidence in the companies in the purchasing public. The harder all the companies and agents work along such lines the more business there will be. Fair clean competition is the most important factor in the welfare of most of our companies. The increased business which will result should reduce the high expense ratio under which most of them are laboring and ultimately the public will benefit by proper reductions in the premiums, made possible by better selection and by the greater volume of business.

I can recommend to every one here tonight an active study of the Government reports. There is much to learn from them, particularly you will note that while the casualty business has been increasing, the fire business in which most of you are engaged, has been more or less stationary. In Canada the casualty premiums are now approximately 50 per cent. of the fire premiums. In the United States casualty premiums are approximately 75 per cent. of the fire premiums, and at the present rate will soon pass the fire business in volume. There is no reason why casualty business in Canada should not show the same ratio.

As many of you here are not familiar, perhaps, even with the names of the various classes of casualty insurance, I will mention the most important classes in order as to volume of premium, giving the amounts of premiums reported for 1924.

1. Automobile	\$6,300,000.00
2. Health and Accident.....	5,653,000.00
3. Hail	3,687,167.00
4. Liability	3,076,568.00
5. Guarantee	1,769,000.00

6. Burglary	807,630.00
7. Plate Glass	571,000.00
8. Inland Transportation.....	359,000.00
9. Steam Boiler	296,000.00
10. Credit	260,000.00
11. Tornado	121,608.00

All other classes produce slightly less than \$2,000,000.00 in premiums and most of them are as yet of no importance in Canada, although some of the smaller classes are beginning to produce a substantial volume of premium in the United States, all of which are of sufficient importance to justify considerable study.

I can recommend to every one interested in the casualty business a careful study of the manual of rates. The rates and instructions, if studied and analyzed, will give you a large fund of underwriting information. Do not think because you find occasional discrepancies, inequalities and obviously unfair rates, that the whole is bad.

The casualty lines are important, worthy of the full time, both of company employees and agents. The variety afforded by the various classes, the human interest of the underwriting and of the claims, the growth and development of the new classes, will have an appeal and supply an interest which will not diminish as your knowledge increases.

Book of Rules

BOOK OF RULES

By W. H. HURD

Branch Manager, General Accident, Fire & Life Assurance Corporation, Ltd.

When I was first asked to undertake a lecture on the above subject, I hesitated very much to do so, as I felt that the task was a stupendous one. I find, however, that there have already been several papers given dealing with the "C" Tariff, and that it will, therefore, only be necessary to deal with such rules and regulations as differ, or are wider in their scope when applied to policies covering property in Schedule rated towns. Even this is far too large a subject for one paper, and my remarks therefore will, of necessity, be rather brief.

CONCURRENT INSURANCE

The conditions governing this clause are the same as for "C" Tariff towns, with the exception that in Schedule rated towns, it has not been found necessary to generally limit the amount of concurrent insurance permitted to any definite percentage, although it is necessary under the rules to state what percentage is required. This restriction does not apply to policies containing a Co-Insurance Clause, or covering on wholesale stocks, grain, lumber, or merchandise in storage warehouses; in these latter cases, it is usual to insert a clause reading: "Further concurrent insurance permitted."

CO-INSURANCE CLAUSE

It is part of the consideration of this policy, or renewal thereof, and the basis upon which the rate of premium is fixed, that the insured shall maintain insurance concurrent in form with this policy on each and every item hereby insured to the extent of at least% of the actual cash value thereof and that, failing to do so, the insured shall be a co-insurer to the extent of an amount sufficient to make the aggregate insurance equal to,.....% of the actual cash value of each and every item hereby insured and, in that capacity, shall bear his, her or their proportion of any loss that may occur.

Warning—A policy containing a co-insurance clause must have printed or stamped across it face in large type and in red ink the words: "This policy contains a co-insurance clause," and if these words are not printed or stamped such clause is not, according to the Insurance Act, legally binding on the insured.

The application of co-insurance in Schedule-rated towns is somewhat different to that applying at "C" Tariff locations as, owing to their being water, chemical, police and other forms of local protection available to fight a fire, the Companies feel that they will not be called upon to

pay total loss claims, whereas in "C" Tariff towns, due to lack of fire-fighting equipment, a reverse condition generally prevails, except sometimes as regards stock in certain classes of occupancies, such as stores and warehouses, which can be easily removed. The reason why co-insurance is not extended to all mercantile buildings in the latter is because companies feel that an insurer has to carry full insurance in order to protect his interests and anyway, being total loss propositions, they do not wish, unless at gross rates, to increase their liability at these points.

In view of the first-mentioned fact, it was decided to allow a reduction in the fire insurance rates—both building and contents—if the insured agrees to carry a stipulated amount of insurance by allowing the company to insert a clause similar to the above-quoted in their policy contract, an amount equal to at least 80% to value in joist and mill buildings and their contents being agreed upon by the companies. The reduction allowed is greater covering the building than the contents, the reason being that the latter is more susceptible to damage by fire, smoke and water than the former. There is no doubt that some consideration is due to an insured located in a protected town who is willing to carry insurance greater in value than what the company is likely to be called upon to pay in the event of a loss for, as previously mentioned, losses in this class of protected cities and towns are to quite an extent partial only.

The subject again changes somewhat, insofar as fire-resistive buildings and their contents are concerned, as, owing to the superior construction of this class of risk, co-insurance is obligatory otherwise an insured could carry only a nominal amount which would possibly represent only the burnable material of the building, and companies would be called upon to pay total loss claims.

The rates on fire-resistive buildings are worked out on a basis of 80% insurance to value being carried, both on buildings and their contents, but it is possible to obtain rates on the building subject to what is known as "Graded Co-Insurance," i.e., subject to 50%, 60%, 70%, 90% and 100%. The rates for the first three are higher than the 80% rate, and the latter two, of course lower, as more insurance is carried by the insured and, therefore, a consideration in rate is given. Graded co-Insurance is not extended in its application to cover contents, 80% Co-Insurance is mandatory as this class is subject practically to the same fire conditions as if in a building of inferior construction, and unless Co-Insurance is made binding, total loss claims would result.

In lieu of Graded Co-Insurance covering buildings it is also possible to obtain insurance on buildings of fire-resistant construction subject to a Guaranteed Amount Clause, equal to or more than 50% of its value. This clause reads as follows:

"It is part of the consideration of this policy, or renewal thereof, and the basis upon which the rate of premium is fixed, that the insured shall maintain insurance concurrent in form, range and wording with this policy on the.....insured under Item.....of this policy, to the extent of at least \$....., and that failing to do so, the insured shall be a co-insurer to the extent of an amount sufficient to make the aggregate insurance on the.....insured under item No..... of this policy equal to \$..... and in that capacity shall bearproportion of any loss that may occur."

(His, her or their)

This clause is somewhat similar to the Co-Insurance Clause, except that the insured guarantees to carry a stated amount of insurance during the currency of his policy.

In order to obtain a rate such as the latter, it is necessary to furnish the Underwriters' Association with a certified valuation, showing dimensions and quantities on which said valuation is based, over the signature of an Appraisal Company or Valuator satisfactory to the Secretary.

THE REASONS FOR CO-INSURANCE

It is absolutely necessary that underwriters should have a sufficient amount of insurance, with respect to the value of the property covered, to avoid the continual payment of what are, in reality, only small damages or partial losses but which in effect, owing to short insurance, would become total losses. On no other basis than that of a fixed relation between insurance carried and the found value of the property insured is it possible for the cost of insurance, i.e., the rate, to be determined with any fair amount of accuracy.

WAIVERS

Where policies contain a Co-Insurance Clause, it is customary to attach to the wording one or other of the waivers, shown on page 41 of Schedule Book of Rules. These waivers are concessions granted the insured to do away with the necessity of elaborate adjustments in the case of very small losses.

There are, however, some classes of policies on which it is very inadvisable to attach the Co-Insurance Waiver. I have in mind a blanket policy, covering up to sixty or seventy locations, the values at each location being practically identical; now the insertion of a waiver stating that the Co-Insurance Clause shall not be held to apply, when

the loss does not exceed two per cent. of the amount of insurance covering, is practically tantamount to waiving the co-insurance requirements, as it is extremely unlikely that two fires will occur simultaneously and any one fire would not involve more than two per cent. of the total cover.

CONSEQUENTIAL DAMAGE CLAUSE

This is a clause used practically exclusively in connection with cold storage plants or whenever artificial means of refrigeration are employed. It was found that there was a possibility of a serious loss to products in cold storage warehouses in case of fire by the disruption or break-down of the refrigerating machinery. The principal form of refrigeration used in cold storage warehouses is known as ammonia process. If the equipment were to fail to function due to a fire, there would be thousands of dollars of merchandise destroyed through lack of proper temperature conditions; such loss is not, strictly speaking, a fire loss, but unless some clause were inserted on the face of the policy waiving the company's liability, collection could be made, there being no exemption under the Statutory Conditions. Hence the Consequential Damage Clause, which distinctly lays down that the company will not be liable for any loss caused by the interruption of the refrigerating or cooling business. The above-mentioned liability is often covered by the companies in consideration of an increase in rate, and a clause is inserted on the policy assuming that liability.

INHERENT EXPLOSION HAZARD

There are certain classes of risks which are, from the nature of their operations, subject to explosion inherent, i.e. (naturally pertaining) to those operations. The only class of risks of any importance in our territory subject to this class of hazard are flour mills and large elevators, the hazard arising from the dust that is inevitable to this class. Damage caused by an explosion is not a liability under a fire insurance policy, but, after an explosion, it is extremely difficult to prove how such explosion was caused, and the result was almost inevitable payment of the loss by the company carrying the fire insurance. I am not posing as an expert on this subject, but it seems clear to me that both companies and insured were in agreement that it would be better to definitely know where they stood, and have this hazard specifically covered. This is now almost universally done, the company openly assuming the liability and the insured paying an extra premium mutually agreed on.

DESCRIPTION OF RISKS

All policies should have the following as a minimum :

1. Nature of property insured, i.e., stock of groceries, vegetables, fruits.
2. Business of the insured, i.e., grocery and fruit store.
3. Description of building, i.e., construction (brick, frame, etc.), height, roof material.
4. Legal reference including name and number of the street, city or town.
5. Other occupancies of the building which may, insofar as the requirements of companies are concerned, be given in general terms when the building is a multiple occupancy risk, such as "Light Manufacturing, Stores, Warehouses, Offices and Apartments," but there are times when a certain occupancy cannot be included under these general descriptions such as Garage and Pool Room occupancies. If the risk contains occupancies of this nature they should be mentioned specifically.

To many the description of the risk seems unimportant because they are so familiar with it that no doubt or questions arise in their mind, forgetting that the Board Office and Company Head Office examiners are not familiar with all the buildings in Western Canada so, in order to underwrite a risk correctly and with care, it is necessary that all of this information be given on the contract. There are other reasons why a full and definite description be given, which protects the company, also the insured, which, if not already known to you, will immediately become visible upon reading the Statutory Conditions, 1, 2 and 7.

LEASEHOLD INSURANCE

This class of insurance is not so freely written in this country as in some of the older countries, but there are two forms that are written occasionally. The first, when the holder of a term lease finds that the premises have increased in value and are worth a higher rent than is called for in the lease. This is a real profit to the holder of the lease and can be covered by insurance, provided, of course, that the company is satisfied of the genuineness of the new valuation. The second form used is where the holder of a lease actually sublets the property for a higher rental, he may then insure the difference. The leasehold interest just spoken of may be defined as the increased rental value to the insured in excess of the rental paid by the insured on the described lease. Any form of leasehold insurance warrants most careful scrutiny before acceptance.

BLANKET POLICIES

A blanket policy is one which covers a building and contents or more than one building and contents, at named locations, either located in one general locality or in separate cities, also it can be issued to cover only on contents or only on stock or machinery, in more than one building or location.

The insurance applies under one item, and is seldom, if ever, written with a lower per centage of co-insurance than 90%.

A blanket policy might be issued to cover a group of buildings comprising one plant, including contents thereof, or might be issued to cover a string of warehouses located in different cities or a number of manufacturing plants in different cities under the same ownership.

Blanket form insurance makes for simplicity and automatically provides for the insurance to follow the values. It does away with the necessity of constantly adjusting insurance to apply specifically in or on a number of buildings. The assured only finds it necessary to make certain at all times that he is carrying insurance equal to 90% of the total values included in the blanket.

To illustrate how the insurance follows values—the stock in a given building today may be worth \$10,000 and in another building, covered under the same blanket, \$15,000, both values being protected under the policy. The following day, however, or a week or a month later, the values in these respective buildings may be reversed, but the insurance would correctly attach to cover the changed location of values.

You will readily see that an assured carrying 90% insurance under one item, on values in two or more locations, would, at all times, have 100% protection at each location, for it is quite unlikely that two risks not exposing one another, would burn at the same time. This feature of 100% protection for the paying of a premium on 90% of the values, is an attractive one from the assured's point of view. The same feature is also recognized by the insurance companies, for while the use of the 90% Co-Insurance Clause in blanket policies is mandatory, credit in the rate is only given for the 80% co-insurance clause.

A blanket policy must not be confused with a floating policy, although in a sense, the insurance under a blanket policy does "float," that is, it shifts from one point to another, following increase or decrease in values, but is not a floating policy in the sense that the term "floating policy" is used.

The rate for a blanket policy is the result of averaging the rates applicable to each risk included. The wording is so drawn as to cover buildings and contents and the assured must provide a statement of values divided as follows:

Buildings—Less percentage for foundations, excavations, etc.

Stock—Maximum, minimum and average values during the year.

Machinery.

The individual rates applying to each item are then applied and the total is then averaged. This is, therefore, known as an "Average Blanket Rate."

FLOATING POLICIES

The name itself indicates what this form of insurance is. The insurance under a floating policy, "floats," or "automatically follows" merchandise or stock values. Floating policies are written to cover musical instruments, sewing machines, billiard and pool tables, traveller's samples, beer kegs, milk cans, and, in fact, is written to cover almost any class of goods (not buildings) and our Board rules provide that these policies must be subject to 100% co-insurance.

Tourists' effects are also written under a Tourist Floater policy.

You will quite easily see the wisdom of this co-insurance requirement, for should the Co-Insurance Clause be eliminated from the floating policy, an assured would be enabled to carry one policy for an amount large enough to cover the maximum values at any one time at any one location. To illustrate this, we might take \$10,000 as the maximum value at any one location, whereas in the absence of named locations the policy might be covering values spread in twenty-five locations to the total value of \$100,000, and it is manifestly unfair for any insurance company to give \$100,000 protection for the premium produced by a policy of \$10,000.

A floating policy is also in a sense a blanket policy in that it covers risks at various unnamed locations, but on account of the use of the 100% Co-Insurance Clause, the assured does not reap 10% benefit, as in the case of blanket policies subject to 90% co-insurance.

As the location covered under a floating policy can seldom be defined the rate is, of necessity, somewhat high to protect the companies from all contingencies.

FUEL OIL HEATING PERMIT

This permit form and the regulations shown thereon were formulated to ensure the maximum degree of safety in construction, installation and operation of various fuel oil heating systems reviewed from a fire, explosion and accident point of view and where the permit requirements are fully complied with the oil burner in question may be permitted to be used in the risk without further increase in the insurance rate, when used solely for heating apparatus other than for process.

Approximately 1,000 different oil burners are being manufactured today, and of these only a small percentage are on the approved list of the Underwriters' Laboratories. It might be said that many of these burners now being sold are placed upon the market with an ultimate view to underselling competitors and might be likened to an assembled lot of low-priced hardware; the cheapness of these devices and the selling talk of the salesmen involved makes quite an appeal to the public who unconsciously are purchasing dangerous and defective equipment and who are often led to believe that the article they are buying had been passed and approved by the underwriters, only to find after the installation has been made that their insurance is affected adversely.

The requirements mentioned in the free permit form are self-explanatory and are worded in accord with the regulations as laid down by the Underwriters' Laboratories Inc. after due investigation by them of the whole hazard involved, and represent the minimum safety requirements, any deviations from which would call for the imposition of the extra charge of 10c per \$100 per annum or 20c per \$100 in risks eligible for the three-year term.

The principal points considered in these regulations are as follows:

1. Restriction of the flash point of the oil used to not less than 100° Fah. This requires no further comment for, if lower flash point oils were used, the hazard would be greatly increased and would warrant further recognition in the rating applicable.

2. The limitation of fuel oil storage above ground to not exceeding 300 gallons in all, oil to be pumped direct to burner or to small gravity auxiliary tank in connection therewith, the capacity of the latter not to exceed 50 gallons. The need for this regulation will be quite apparent, otherwise we would find installations with excessive amounts of oil stored on the premises, which properly call for outside underground storage treatment.

3. Gravity feed to burners from the main storage tanks is absolutely prohibited owing to the probability of fires occurring through rupture in the tank or piping system and the consequent flowing of oil in large quantities to the furnace and ignition at that point.

4. The elimination of all apparatus and fittings that might become easily broken and allow the unrestricted flow of oil with results as pointed out in the preceding item.

5. Maintenance of safe clearance between storage tanks and furnace.

6. Proper filling and ventilation of tanks from outside the premises.

7. Safe construction of all piping and provision for proper cut-off in pipe lines in accessible places in case of emergency and full protection from mechanical injury.

8. Prohibition of acetylene gas for pilot light purposes.

These items cover perhaps what might be termed the major considerations involved. We find, however, that most of the installations are made under furnaces and boilers that were originally installed for operation with hard fuel and many of the operating difficulties may be attributed to this fact. Quite a number of the oil burners are adjusted and adapted to burn oil of a uniform quality or grade and when other grade oils are installed trouble generally results in one form or another and several fires have been attributed to this source.

Then again, carbonization may take place at the burner which becomes clogged and this condition has been known to be responsible for explosions. The valves and pilot light sometime get out of order, which permits the oil to continue flowing to the burner when the pilot light has been extinguished. When the system is again in operation the oil, of which perhaps there is a considerable quantity, in furnace pit, ignites and while the danger of fire to surrounding material is not great, except under favorable conditions, the resultant smoke generally fills the house and does a lot of damage.

I might say then that we are particularly fortunate in our territory in having good regulations governing this form of hazard, brought into being by the wide-spread installation of oil-burning equipment in place of hard fuel-heated apparatus; as a matter of fact, and unfortunately so, the Inspection Bureaus across the line countenance the use of all types of burners with but few exceptions. This, of course, means a real hardship to the manufacturer that tries to comply with the Underwriters' Laboratories rules and still meet competition, but in contrast to this in our own

territory we are trying to encourage proper installations and in attempting this we penalize those of faulty design and construction and allow free of charge those which comply with regulations, hence the reason for the application of this permit.

RENT INSURANCE

The regular fire insurance policy covers the direct or physical loss or damage by fire, but there are always what are termed consequential losses which are not covered by the ordinary insurance policy, and these consequential losses are sometimes as large as the physical loss.

One of these consequential losses is the loss of rents which the owner of a building suffers when the building is destroyed or damaged by fire, and about fifty years ago a form of insurance was introduced to take care of this form of loss, known as Rent Insurance.

The whole purpose of insurance is indemnity and therefore it is not the purpose of any form of insurance to reimburse the owner to a greater extent than his actual loss, and, therefore, in insuring rents it is necessary to indicate in the form that deductions must be made for such expenses as would discontinue were the building damaged or destroyed, such as, for instance, heating, caretaker's service, elevator service, and such like items. In making up these items all that is necessary to have in mind is that the assured is not entitled to more than he would actually lose.

Forms vary considerably in connection with this form of insurance, but in the territory under the jurisdiction of the Western Canada Board only one form is at present in use, and that is the form known as the twelve months' form, which means that twelve months rents are to be insured and the loss paid on this basis. The form also contemplates insuring both the occupied and unoccupied portions of the building. This for the reason that while the building may be partially occupied when the insurance is placed, it might become fully occupied the following day, or the following week or month, as the case might be.

SUMMER DWELLINGS

The publication of the Book of Rules inaugurated a new system of rating certain Summer dwellings. In the old days Summer dwelling was usually a comparatively simple structure situated at some beach, or on a river bank, and as such, was subject to bush and prairie fire hazard, as well as vagrant hazard during the winter months. Of late

years, however, a number of summer residences have been erected within the limits of schedule-rated cities and towns, and the aforementioned hazards have, to a great extent, been eliminated; in addition, there is, in many instances, a possibility of police supervision. A reduction in rate, as shown on page 37 of the Schedule Book of Rules, was therefore given.

USE AND OCCUPANCY

A great many authorities in the insurance business consider the term Use and Occupancy a misnomer. There are some people who call it "Business Interruption Indemnity," but it is better known under the title, "Use and Occupancy." This is the name given to the class of insurance which indemnifies an assured for loss occasioned by his being prevented, in consequence of fire, from carrying on his usual business. The ordinary fire insurance policy only reimburses him for material damage to the property insured. "Use and Occupancy" policies pay him for the loss of the net earning power of his property and for loss of income or expenses incurred not taken care of under the fire loss. For instance, in case of the destruction by fire of a plant, there are certain officials, master mechanics, foremen and other employees that would have to continue on the pay-roll during the period of interruption, so that when they had their plant replaced there would be no time lost in appointing new officials or a "green" staff. Insurance would also cover taxes which would have to be paid even though the plant were not operating, royalties, rents and interest on bonded indebtedness, if any. These are just a few of the items which Use and Occupancy insurance is presumed to cover and thus protect the assured against loss. Every successful business institution suffers a greater loss in case of fire than the mere destruction or damage of the physical property, through a reduction in profits. There are very many angles to this class of insurance and to do the subject justice it would be necessary to go into the discussion of this class very extensively. I understand, that later on in the season a paper is to be given by someone on this class of insurance, so I shall not discuss the matter further.

WARRANTIES

Certain warranties that have to do with the protection are required in policies on sprinklered risks.

SPRINKLER WARRANTY

When a risk is sprinklered the rate is so low as compared with former rates that the companies naturally

require some guarantee that the sprinkler system will be maintained in good working order and for this reason the sprinkler warranty is required.

SPRINKLER SUPERVISORY WARRANTY

Although sprinklers will open automatically in case of fire, the water would continue to flow indefinitely unless shut off manually and next in importance to the sprinkler system itself is some means of giving notification that the system is in operation so as to obtain assistance to shut off the water when the fire is out and get the system restored to normal working condition as soon as possible.

One device for this purpose is the sprinkler supervisory system operated in Winnipeg by the Dominion Messenger and Signal Company. If one or more sprinklers open the flow of water through the pipes causes a signal to be transmitted to the company's central station; the alarm is sent on to the fire department and a man from the Signal Company goes to the building.

But not only does this system give the alarm in case of fire; it automatically supervises the controlling valves, tanks, etc., and assists greatly in keeping the sprinkler system in good working order and a warranty is required that the Dominion Messenger and Signal Company supervisory system will be maintained.

WATCHMAN

In cities where the sprinkler supervisory system is not operated and also in some large risks in Winnipeg, a watchman is required to make rounds hourly during the night and bi-hourly Sundays and holidays. In order to ensure that the watchman will make regular rounds and cover the whole risk, some system of recording his rounds is required. In Winnipeg a system whereby signals from the watchman are received and recorded at the Central Station is operated by the Dominion Messenger and Signal Company. Signal boxes are distributed throughout the risk in such a manner that in order to reach them the watchman must cover the whole risk; as each box is pulled a signal is recorded on tape at the Central Station; if signals are not received a man is sent to the risk to ascertain the reason. Each signal box may be used as a fire alarm box. The Signal Company sends a report every day to the Board Office showing any failures of watchmen in their duty.

Obviously this system is of considerable value from the point of view of the Insurance companies and a warranty is required that the watchman and Dominion Messenger and Signal Company's connection will be maintained.

In many cases the watchman's rounds are recorded by means of a clock, usually portable, with keys distributed in the same manner as the signal boxes above mentioned; by inserting a key a punch mark is made on a paper dial in the clock and the dials are kept on file for inspection; in such cases it is warranted that the watchman and clock service will be maintained.

A watchman recording his rounds by either of the above methods is often employed in unsprinklered risks when the same warranties apply.

In a few instances in cities where there is no sprinkler supervisory systems, the insured does not want to maintain a watchman, and an alarm connection from the sprinkler system to the nearest fire station is substituted. This is inferior to the other systems but a warranty is required that the fire station connection will be maintained.

MAY-OATWAY SYSTEM

This has nothing to do with sprinklers though in a few instances it is found in a sprinklered risk. It is an automatic fire alarm system which transmits alarms of fire directly to the fire department. As a substantial reduction in rates is allowed for the system, a warranty that it will be maintained is required.

Liability and Guarantee Adjustment

LIABILITY AND GUARANTEE ADJUSTMENT

By R. D. GUY

Barrister

At the request of a personal friend, Mr. J. B. McPherson, and, perhaps in a moment of weakness, I consented to address you on the subject of "The Adjustment of Liability Claims." Inasmuch as a considerable portion of my time is spent in dealing with claims of various kinds, I felt I should not hesitate to give you the result of my experience on this particular phase of the work.

At first glance the subject seems to be the simplest of all the different varieties of claim work, but upon examination, and in actual practice, it proves, nearly always, to be the most difficult. One hears so often the casual remark: "Of course, there's liability, so there's nothing to do but pay." Nothing seems simpler than this, but this very statement involves—

1. A conclusion upon the facts of the case as to the responsibility

and

2. An agreement upon, or fixity as to, the amount of the payment.

In the majority of cases, neither of these can be readily determined.

THE REAL DIFFICULTY IN MOST CASES IS TO DETERMINE THE LIABILITY

In most cases the real difficulty is to determine the liability. What at first glance may appear to be a case of liability, may, upon a critical investigation, involve no liability whatever. It is a good rule to follow, in practice, "to refuse to admit any liability in respect of a claim until it is demonstrated that the liability exists." As an example of this, I might refer you to one of my own cases—Dickens vs. Winnipeg Electric. Here a woman made claim upon the company for \$5,000 damages in respect of an accident which she claimed had happened to her while boarding one of the company's cars at the corner of Marion and Tache, in St. Boniface. We had no report of the accident from any of our employees, and, pursuant to our policy never to settle out of court claims of which we have no record or which have not been verified, we ask for co-operation as proof, which was never satisfactorily given. The plaintiff's story was that she had been to the St. Boniface hospital to

visit a friend (which was true) and that she walked down to the particular intersection to get a car as there was no car on Tache at the time—4.45 p.m. (which was true)—that a car came along and stopped. She started to cross the street to get on but the conductor closed the doors just before she got there. She knocked on the door, which was opened, and just as she was in the act of getting on, the car started and the conductor closed the doors on her foot, seriously injuring her ankle. When she got to Portage Avenue she went to the doctor's office for treatment of her ankle, which was also true, and subsequently went into the Winnipeg General hospital, leaving there after about two weeks. We engaged a secret service agent but without result. The plaintiff still walked lame. Suit was brought in the Court of King's Bench and the action came on for trial before a jury. Prior to this, we examined the plaintiff for discovery and ascertained: (1) The exact time of the accident; (2) A description of the conductor; (3) The type of car, etc. At the trial we called every conductor operating cars in that vicinity at that time, and, as we anticipated, the plaintiff identified one of the conductors so called. We then showed that this man was not there at the time of the accident; that the cars on that line were not such as would allow an accident of the kind described, and that it could not happen in the way she contended. The jury were satisfied the claim was fictitious and disallowed it.

In another case—

Alliance Assurance vs. Winnipeg Electric

One of the company's cars left the rails, and, after crossing the street, struck and crushed an automobile and damaged the building owned by the Holland Creameries. The trial Judge held the company was liable, remarking that, as a general rule, he thought a person crossing the street car track, could, by taking reasonable care, prevent an accident, but that when a street car started to run about like a bull in a china shop, the company should be held responsible. The Court of Appeal, however, reversed the finding on the ground that there was no negligence shown and a reasonable explanation given for the car leaving the track, namely, an inherent defect in the axle, which could not be discovered on inspection.

3. Theft of an automobile.

It follows, from these illustrations, that before the question of liability can be determined, one must have had a thorough and complete investigation, and such an investigation can only be made when one is equipped with—

- (a) An adequate system.
- (b) Experienced, capable investigators.

By an adequate system, I mean all the practical things, within reason, to aid in the work of investigating claims, e.g., directories; witness forms; photographic apparatus; identification cards; statutory declarations; expert medical men and expert mechanics.

EXPERIENCED, CAPABLE INVESTIGATORS

The successful investigation of claims is nothing more or less than a search for the truth and for the evidence necessary to establish it, for every investigation should be carried on, bearing in mind that a settlement may not be effected, and that in practically every case, there is a possibility of a court trial. To be able to do the work of a first-class investigator one must be intelligent and honest; a hard worker; willing to pay strict attention to business; a clear, cool-headed person; a psychologist; capable of sizing up all kinds of people with whom he comes in contact; he must constantly be studying his cases, the people he meets and the locality in which he is working.

An investigator should always try to leave a good impression with those he does business with so that they will have confidence in him in the future. A first-class investigator is not the product of one season, and even the man, who has been in the business many years, may continue to learn.

Upon the result of our investigation, we can divide the cases into—

- (a) Those where there is clearly no liability.
- (b) Those where liability is doubtful.
- (c) Those where the liability is clear.

But it is with this last class that I have been asked to deal, though, as to the first, I am inclined to believe that insurance companies, in their eagerness to obtain releases, are too willing to pay out money to those claimants who are not entitled to it.

The next important step is to value the claim, that is, to form a sound opinion as to the amount of damage which should be paid in order to obtain the release. Here, again, we must know the legal principles upon which damage is calculated, e.g., in the case of a damaged automobile, if you are liable for anything, you are liable for all damage done by the accident, that is, repairs and depreciation, if any, but this is where the claimant may try to take advantage of you. The accident affords a good opportunity to get his

car painted; new fenders for the old battered ones; a new radiator for a leaky one, etc., but the real test of the amounts to be paid is the actual value of the damage done. There may, or may not, be an allowance for depreciation, depending upon the nature of the accident. If the investigator has had his expert mechanic examine the car, he will know to what extent the claim is justified in any respect.

Having come to the conclusion that there is liability, and having valued the claim, the next problem is to undertake and complete the adjustment of it. It must be apparent that the method to be used will depend entirely upon the circumstances of each individual case and the personal characteristics of the claimant. In practice we may divide claims into comparatively few classes, namely:

(a) Property damage, where the amount is small and where the amount is large.

(b) Personal injuries.

The special feature of Property Damage cases is that they don't grow. As time goes on the amount of the damage doesn't increase. With claims of this class, we can afford to take a reasonable chance. There is a fixity to the amount of damage, and one is usually safe in denying liability, unless there is no room at all for argument, and it should also be borne in mind, where the damage is small, claimants will usually not go to the trouble of suits, where the costs of litigation will equal or exceed the amount of the claim, even though he is successful. Where there is room for argument as to the liability, this may be used to good advantage in reducing the amount of the payment or effecting a compromise.

PERSONAL INJURY CASES

These are by far the most difficult, of any, to handle, for the reason that there is no fixity as to the amount of damage to be allowed for any given injury. The patient may suffer from so-called subjective symptoms, or may develop traumatic neurasthenia or any number of complications which a sympathetic jury may value at an amount which might seem to you, astounding. It is, therefore, most important that a medical examination by a competent physician be had as soon as possible and if the injury is serious, at subsequent intervals.

In the valuation of these claims, the legal principles upon which damages will be allowed, must constantly be borne in mind; there are—

(a) Loss of wages during incapacity.

- (b) Monies paid in curing himself of his ills.
- (c) An amount for pain and suffering from the injury.
- (d) In husband and wife cases compensations for the loss of consortium.

JOHNSON vs. WINNIPEG ELECTRIC

Care must be taken not to allow any damages which might be considered as too remote. Damage is said to be too remote, when, although arising out of a cause of action, it does not so immediately flow from it that the offending party can be made responsible for it—Mayne, page 45. The question is whether the damage complained of is the natural and reasonable result of the defendant's act. Every cause leads to an infinite sequence of effects, but the author of the initial cause cannot be made responsible for all the effects in the series.

HOBBS vs. L. & S.W. RAILWAY (LR. 10, S.B. 111 @ 112)

In this case a passenger was let off the train at the wrong station, and had to walk a considerable distance in a storm in which she contracted a cold, and sued for damages for the resultant illness. It was held that the limit of damages was the fare from station where she was let off to her proper destination.

PETER MACHTELINCKX CASE

PENMAN CASE

THE UNREASONABLE MAN

Very often the claimant is a man who thinks he ought to recover some exorbitant sum. If he has a broken arm he should get, at least \$10,000, or if he is badly shaken up \$5,000. He seems impossible to deal with. Some one has told him, perhaps, about a big verdict obtained in the United States, or some other place, for much larger amounts, where the parties injured were not so badly hurt as he was. His so-called friends advise him to hold out for a large sum—"Don't be a fool and settle for practically nothing—"Ten chances to one they are insured and the insurance company has lots of money. They can pay." His position is strengthened by the fact that he has a good case, and he is buoyed up by the feeling that he can't lose; he is sure to win. With his imagination aroused by the thought that wealth is now at hand for him, he demands his whole pound of flesh.

This is the position when the adjuster first goes to see him. I say "goes to see him" advisedly, for in a case of liability, such as we are dealing with, our experience

demonstrates that the direct method is the one to be used, and this is where the experienced adjuster is necessary. This is where he shows his skill.

(a) First of all he will ask the claimant for the basis of his claim; how he arrives at the amount which he is asking.

(b) Then he will enumerate as many cases as possible where, for similar injuries, small amounts have been obtained.

(c) Then he will explain he is ready to treat the claim fairly and show him how the sum which he is prepared to offer is arrived at.

(d) He will endeavor to close on his own basis, if possible, at the first interview, but if this cannot be done, he will avoid, if possible, too frequent interviews.

(e) If the man scornfully rejects the offer and threatens to put the case in the hands of a lawyer, he will explain to him the cost of litigation and the consequences of a law-suit with prolonged litigation.

(f) If the adjuster cannot make a settlement with him at this interview, the claimant should be asked to think the matter over along the lines which have been discussed, and to let the adjuster have a final answer at an early fixed date—then find out what it is.

Perhaps the man who is out for big money will immediately go to a lawyer who advises him to tell you nothing. Fortunate, indeed, will he be if he chooses a lawyer who believes in a square deal. As a general rule, however, the ideas of lawyers as to their client's compensation is much larger than what the company is willing to pay. If no settlement can be made, through the man himself, the claim should be put in the hands of your own solicitor, and if no reasonable adjustment can be made, the amount which you consider proper, paid into court, to avoid the costs of litigation.

WHEN THE CLAIMANT SHOULD BE SEEN

As a general rule, the claim should be completely investigated and the adjuster armed with all the facts, before he should approach the claimant with a view to settlement, but he should see the claimant just as soon after the accident as the injury to the claimant, and his own investigation permit. I would advise strongly against any premature attempt to effect a settlement while the patient is suffering great pain, or under the influence of morphine or other drugs. In the long run, taking undue advantage of

claimants is a mistake and will very soon destroy the usefulness of an otherwise good adjuster. It is advisable in an interview of such a nature, to have an independent witness present to avoid the possibility of the claimant declaring that his condition was such that he could not fully appreciate what he was doing.

THE NEURASTHENIC

The neurasthenic is but a type of unreasonable being. Having suffered an accident the person believes that he is wholly incapacitated from doing any work, or is suffering from some serious disability which is really only imaginary.

I am sorry to say that certain "ambulance chasers" and members of the medical fraternity are, to some extent, responsible for this class of individual. Various and sundry internal injuries have been discovered and once the patient's attention is called to this internal trouble, even if it does not exist, the power of suggestion becomes active, and the patient immediately is in the grasp of what is now known, both by the medical and legal fraternities, as traumatic neurasthenia. This in its last analysis means only a suggested trouble which becomes such an obsession that its ultimate relief can only be found in a "plaster of green-backs," or, in other words, a settlement of the case. Yet traumatic neurasthenia is real, it becomes part and parcel of the patient. Women are particularly prone to it. The term, "anguish of mind," "mental suffering," very promptly plants in the woman's mind the idea that she has been badly used and that she is entitled to a settlement and nothing but a settlement will ever relieve the nervous condition in which she finds herself. Therefore, the lawyer and the physician become doubly culpable—Firstly, because they have brought about the situation, and secondly, they perhaps ruin the nervous system of the patient by their attitude.

Naturally, it is important to get a case of this kind disposed of as soon as possible and the services of one's medical advisor should be enlisted. If the efforts of the adjuster and the physician are of no avail, it is best to deny the claim in toto, and let the matter take its course. The probable result will be that the claim will be placed in the hands of another party who may be more reasonable, or into the hands of a solicitor for suit.

A DEATH CLAIM

In the case of a claim arising by reason of the death of a person, caused through the negligence of the defendant, different considerations arise. Here the man is dead, and

the principle of law which formerly governed was "actio personalis cum moritur persona," but now, Lord Campbell's Act gives certain near relatives of the deceased a cause of action against the party causing the death, based on the amount of pecuniary benefit these persons would have received from the deceased, had he lived. This is, to a considerable degree, a matter of calculation. The method of determining the amount is as follows:

1. By ascertaining the probable gross earnings of the deceased, had he lived.

2. By making allowances for whatever contingencies may exist under the circumstances.

For this purpose it is necessary to know:

- (a) The expectation of life.

- (b) The income.

- (c) The proportion of that income properly attributable to the deceased.

- (d) The condition of health of all parties.

- (e) The proportion of income probably received by claimant and the probability of the income continuing.

Nothing is allowed for sorrow or suffering by reason of the death nor as solatium for wounded feelings, nor are funeral expenses recoverable, but the amount of insurance received by reason of the death may be taken into consideration.

McKEOWN vs. TORONTO RAILWAY (19 O.L.R. 361)

Here a child, four years of age, was killed and the jury awarded \$300. The Court of Appeal held that while the amount was liberal it was not so excessive that they would interfere with it.

THE AVERAGE MAN

Lastly, we have the average man who feels he has a bona fide claim, but who may not have all the facts nor the same point of view with reference to the accident as you have, nor does he know the reasons for your decision to pay the amount of your offer. Here again, as in all cases of known liability, the direct method should be used. Much depends upon the method of approach. The claimant should be approached in the spirit of fairness, with a frank admission that you are prepared to do whatever is fair and reasonable. Here again, is where the expert investigator and adjuster shows his real skill. Upon his power to impress the claimant with his argument, will, to a large extent, depend the success of his efforts.

In conclusion, I might summarize as follows: Every just claim, where liability is recognized, should be promptly settled and for the lowest amount possible. The attitude in regard to all claims should be one of "I am from Missouri—you must show me." While it is recognized that you must have the reputation of being just and fair, it should also be recognized that you do not propose to disburse money except for such claims as are absolutely just, and, finally, if you have adopted an adequate system and capable adjusters, and have made a valuation of a claim, after consideration, that you stand by your conviction and pay no more than what your best judgment dictates. If your reasoning has been sound there will be little doubt that the cost of your liability cases will be kept at a minimum.

Underwriting

UNDERWRITING

By JAS. A. DOWLER

Secretary, Canadian Fire Insurance Company

My subject tonight was not one of my own choosing. I was asked to address you, coupled with the suggestion that it be something on Underwriting. I was too busy at the time to give serious thought to the subject and let it go at that. The result was that I did not realize what a difficult task I had taken on until I had settled down to think just what I would say that would be at all helpful to you.

It is my opinion that there has been less written and there is less information available on the subject of underwriting in its broader sense than on any other phase of the insurance business.

There have been many exponents of rates, individual hazards, individual type of risks, policy conditions, insurance law, commission, expense and agency organization, government regulations, history of insurance and such subjects. The subject of underwriting is such a large and vague one and based on individual judgment rather than set rules, that little has been written or said on the general subject as to what underwriting is, or how to underwrite. This may also in a measure be attributed to the fact that the underwriting practices of each company are very apt to differ from the underwriting practices of every other company. Consequently, if anyone were to write frankly on the subject it might be considered that he was setting forth the principles followed by his own company, and regarded as too important information to give out.

They say fools rush in where angels fear to tread. Perhaps that is why they asked me to speak on this subject, which others appear to avoid.

In the early days of insurance the insurers were individuals, rather than companies. It was the custom for these individuals to sign at the bottom of a form, setting forth particulars of the nature of the risk undertaken, and the subject of the insurance. In addition to signing the form, these individuals would state opposite their name the amount of risk they would assume, much in the same manner as members of Lloyds do today. This practice of signing at the bottom was called "Underwriting" and gave rise to the term still in use today, but applied in a much broader sense. The application of the term today has become so broad in fact that it might be said to embrace practically every phase of the business, and that a suc-

cessful underwriter was one who was successful in uniting all the necessary parts of the business into one whole. That is to say, the term "Underwriter" as applied to successful company managers means that they must be successful in many respects, such as,—

The development of the business through organization. He must possess the good judgment and ability to select the proper kind of agents.

He must be capable of developing the proper attitude of mind on the part of his agents toward both the company, the business and the public.

He must be successful in the selection and training of his road men.

In the settlement of claims, he must possess good judgment, be absolutely honest, be fair in his interpretations.

He must be efficient and economical in his management, for expense ratios are almost as important as loss ratios. In fact, I venture to say as many companies have failed through too high an expense ratio as have failed through too high a loss ratio.

He must possess considerable financial genius, for the wise investment of the company's capital, surplus and unearned premium reserves is very often its greatest source of profits.

It is not my intention, however, to deal with the question of Underwriting in this very broad sense of the term, for I feel I will serve your interests best by confining my remarks to the principles and features involved in the selection of risks.

There are no prescribed rules for successful underwriting. If there were the business of insurance would be simple and all that would be required would be for some successful underwriter to write a book stating just what to do. We would all read it and forthwith become full-fledged and successful underwriters.

I venture to say that while the underwriting policy of a number of successful companies may correspond in some individual respects and with particular reference to certain individual classes of risks, there are no two companies whose underwriting methods are identical, and I also venture the opinion that there are successful companies following in some respects almost opposite policies in respect to certain phases of the business, and that both policies, although widely different, have proven successful because of different circumstances effecting these policies.

There are many things that enter into the consideration of the wisest underwriting policy for a company to pursue.

The size of the company.

The volume of business on its books.

The territory which it covers.

It goes without saying that a small company could not afford to take the risks that a large company could, so that what might be all right for one company to do might be all wrong for another.

The very broadest principles differ very widely with some companies, due to the difference in the territory covered, volume of business, either on its books or available in the respective territories covered.

A glance over the records of the operations of the larger companies in the United States during the past ten years will show the difference between the premium income and the outgo of losses and expenses leave a very small margin of profit, averaging only two or three per cent.

Some of the larger and most successful companies show a combined loss and expense ratio even exceeding their premium income, indicating that they look to the interest earnings on the large unearned premium reserves, which in reality they hold in trust but have full control over, for a very large proportion of their earnings, so that the investment of these funds is of equal importance to the underwriting. The company following this policy must look for large volume, and to get large volume must cover a wide territory and write more or less freely. Of course the company following the policy of large volume, enjoys two other advantages, besides the large interest earnings on unearned premium reserves. They are:

Firstly—A wider spread of liability and a better average on many classes.

Secondly—Opportunity for reduced costs on volume.

On the other hand, a smaller company, covering a more restricted area, since it cannot hope to acquire sufficient volume in a limited area to earn a satisfactory return on its invested capital from the investment of its unearned premium reserves, must depend more on a wide margin of underwriting profit, and, consequently, must select its business more carefully and follow a very different policy from the first-mentioned company, for to increase its volume in a restricted area sufficient to profit through volume would bring about concentrated liability, the very thing it should avoid.

The size of the company and the territory it covers not only effects the policy in the general sense referred to above, but in connection with individual risks. I think the most important factor in the business of insurance is the

law of average. It is the one law that makes a risk safe for a company to carry, yet unsafe for an individual to carry.

Take for instance, sprinklered risks; a most desirable class, because of the excellent loss ratio and the very small percentage of total losses. Larger companies writing business over a wide field and having opportunity to obtain a fair average over a large number of risks of this class can well afford to write very large lines on these risks. Yet in spite of the favorable experience on this class, it would not be wise for a small company starting up in Calgary, say, and confining its business to Western Canada, to write very large lines on sprinklered risks, for the reason that they could not hope to secure a sufficient volume to give them a fair average, there being only in the neighborhood of one hundred and fifty sprinklered risks in the whole of Western Canada.

There are many other respects in which the policy of companies must differ, and wisely so, because of difference in the companies themselves and their field of operations, but time will not permit me to deal with all these cases I have cited but will illustrate the type of thing I have in mind.

The size of your field of operations—The size of your business has an important bearing on the size and type of your field organization, and your field organization has a decided bearing on the underwriting policy adopted. For instance, some companies restrict their business almost entirely to protected cities and towns, while others do a very large business in unprotected towns and localities as well as in protected towns and cities. This is not necessarily due to the fact that there may be a difference of opinion as to the possibility of making a profit out of this class, but rather because the one company had a field organization to develop it, inspect it, and the other did not, and it was felt it would be unwise to write unprotected business without a careful selection of agents and inspection of risks which necessitated the use of inspectors.

The cost of the business has an important bearing on a company's underwriting attitude towards certain classes. Take the farm business in Western Canada. A direct writing company would only pay 15 per cent. for this business, or another company with a large mortgage company-controlled farm business may only pay 10 per cent. for a large percentage of their farm business. On the other hand, a company writing through a general agency may be paying 25 per cent. or as high as 30 per cent. Consequently you will find some companies writing a large and profitable

farm business where others class it among their prohibited risks.

It is because these features which I have mentioned and many others I have not referred to, alter individual circumstances to such an extent that it is difficult for any one to speak at all definitely on the subject of underwriting, and what ought and what ought not to be done.

The real basis of underwriting is the theory of probabilities. An attempt to forecast from certain known facts, a final result.

I emphasize certain known facts, because I strongly believe you must know your facts and know your risks in order to underwrite them intelligently. I think the days are gone when the average rate was high enough to take care of mistakes. Luck is becoming less and less a factor. Inspections, knowledge, care and a well-balanced average are becoming more and more essential.

If your facts are not known, if you take things for granted, and instead of certain known facts you base your judgment either on chance or on suppositions or facts which prove to be wrong, then the anticipated final result is likely to be wrong too.

I think then to underwrite business successfully, an underwriter must obtain the true facts concerning each individual risk, just so far as it is in his power to do so. This makes two things of utmost importance. On unprotected business, fully completed applications, coupled with regular inspections and reports, and on protected mercantile business and specials, thorough inspections and reports.

As a general rule less information is furnished the company writing a fire risk than is the case in connection with almost any other class of insurance, and yet as I have pointed out, the moral hazard concerns the character of the assured in a fire risk quite as much as it does in the case of fidelity guarantee insurance.

In writing various kinds of fidelity contract bonds, accident insurance, life insurance, etc., very complete applications are filled out and questions answered dealing with every phase of the assured's character, health, financial responsibility, etc., yet too often the same man applying for fire insurance may only be checked up in a casual way. Is that good underwriting?

Take the automobile business for instance. A committee of insurance men, automobile owners and government officials in the East, as a result of a very careful analysis of the automobile insurance business, with a view to eliminating doubtful claims and so reducing the cost of

the business to the public, recommended among other things, that it be required by law that every one taking out a new or renewal automobile policy must complete in detail and sign an application form setting forth certain facts which must be incorporated in the body of the policy and become a part of the contract. This has become law right across Canada, and, to my mind, no one thing has done more to eliminate crooked automobile claims than the practice which this law made obligatory.

It has meant that the companies are furnished with the essential facts to enable them to judge of the risk it undertakes, and being in possession of the true facts, the company is able to select its business more carefully. If the facts as set forth in the application are wrong, the policy is invalidated.

Circumstances governing the placing of fire insurance are such that it would be difficult to introduce the same practice into fire insurance, yet I know the Dominion Superintendent of Insurance has given serious thought to the practicability and advisability of introducing similar legislation in respect to fire insurance, and I am convinced that there are certain classes in particular where such a law would have a beneficial effect on the loss ratio, and that it would be practicable to do so. I refer to such risks as farm risks, in particular, and unprotected town business of all kinds. There is no question but that the company which insists on fully completed applications on these classes enjoys much the best experience.

Unfortunately common practice makes it impossible to obtain completed applications in all cases, but the point I wish to emphasize is the importance of getting as much information as possible, and if you can't get it one way you should try to get it in another.

Now, I propose to deal with the selection of individual risks under three separate headings:

Moral Hazard, Physical Hazard, The Contract.

MORAL HAZARD

I put Moral Hazard first, because of the three I believe it is possibly the most important. Most important because it is the most difficult to detect and to measure. Most important because the rate is supposed to take care of the physical hazard but there is nothing in the rate to take care of the moral hazard, except that the average loss ratio on various classes is increased by losses due to moral hazard, and the average loss ratio on a class has an influence on the basis rate charged for that class.

There is no rate short of 100 per cent. that can take care of a real moral hazard. The fact, however, that the moral hazard losses on a class do effect the average experience on the class, and that these moral hazard losses are reflected at least in some measure in the basis rate charged for that class, does give the careful underwriter an increased opportunity to profit through the careful selection of his risks.

If an underwriter could entirely avoid the moral hazard in the selection of his risks, he would then be receiving for nothing the benefit of that portion of the basis rate resulting from the average moral hazard loss experience. Just to the extent that he is able to keep his average of moral hazard losses below the average, just to that extent does his company profit.

There is historical evidence available, indicating that moral hazard has always been an important consideration in the business of insurance.

More than 2,500 years ago there was a certain form of insurance being done in Assyria, one of the provisions of which provided that when a loss occurred, "if the judges were satisfied that the loss was accidental," the magistrates were authorized to restore the amount of the loss by assessment.

In 1684, when the insurance offices were established, one of the companies, or societies, as they were more often called, found it necessary to adopt the following rule:

"To prevent any fraud in getting any policy by indirect means after a house is burnt, no house is to be esteemed a secured house till the mark has been actually fixed thereon."

In 1721 the London Insurance had the following rule:

"To prevent frauds, if any buildings or goods assured with any other company or society the policy granted by this corporation is to be null and void unless such assurance is allowed by endorsement on the policy."

In 1729 the first reported case in an English court involving a fire insurance policy called forth, among other things, the following:

"The society being sensible that such an extensive undertaking might give great opportunities for fraud, took all possible precaution for preventing them and therefore their policies for insurance were so framed as to be contracts only between the office and the persons insuring. The loss secured against being thereby restrained and confined to the contracting person only and the policies referred to certain printed proposals containing the essential terms and conditions between the insurers, copies of which proposals were always delivered with the policy."

In 1863, in a report on Fire Insurance Duties, the following language was a part of the report, though probably it stated the case altogether too severely:

"All experienced officers of such societies declare that their necessary premiums might be reduced one-half, but for the fraudulent demands they are compelled to comply with."

Moral hazard exists in varying degrees. There is the type where the assured is downright dishonest and deliberately sets his property on fire. Then there is the type of moral hazard that develops, particularly in times of depression, through careless and sometimes deliberate indifference to the danger of being burnt, because the assured has nothing at stake or is in such a position that although he would not exactly set fire, if it did happen he could regard it as more of a god-send than a misfortune.

Broadly speaking then, I think the underwriter should avoid risks where the circumstances are such or likely to become such as would make a fire profitable to the assured. It is highly desirable that the assured should have something at stake, either in the form of a certain portion of the physical value uninsured or in the possibility of a profitable business being interrupted through fire without Use and Occupancy insurance to relieve him entirely from loss.

Let me refer to some features that might suggest the possibility of moral hazard which would call for careful enquiry on the part of the underwriter.

The nationality of the assured. Some companies prohibit the acceptance of insurance from certain nationalities entirely, as for instance, Hebrews, Ruthenians, Greeks and most all companies check up the record of parties of these and other foreign nationalities very carefully. On the other hand, the Chinamen as a class are generally regarded as a desirable, honest type of assured.

Where the nationality of those insured is concealed, through the use of a trade name you must be particularly careful to know something of the assured. Names such as the Star Trading Company, the Carberry Cash Store, the Banner Clothing Company, and such like very often furnish a respectable name for a dishonest assured to masquerade under. In short, you should know who you are insuring.

Assureds trading and insuring in the wife's name should be carefully checked up, for very often they are doing this because they have previously failed or defrauded their creditors, indicating either a weak financial condition or dishonesty.

Credit risks as a class call for the utmost care in selection for the circumstances are almost invariably such that a fire would be a gain, rather than a loss. I refer to bankrupt stocks, stocks insured in the name of assignees or payable to assignees, wholesalers or banks.

The over-successful business needs to be watched almost as carefully as the unsuccessful one, for there is the danger of over expansion making a fire the easiest way out.

Unusual risks such as the over-size dwelling on a farm, in a town or the outskirts of a city, the over-size barn or hotel as a class need to be carefully checked, and as a class are undesirable. You may write them today for an honest assured, he dies, leaves it to a son who cannot keep up and needs the money—a fire solves the problem.

Buildings on leased ground or a large amount on permanent fittings and decorations insured in leased premises create a moral hazard if the assured is subject to it.

The investment value of a risk in relation to its physical value is an important factor in judging moral hazard possibilities. If a building worth \$50,000 to replace, because of its location or disuse for the purpose for which it was originally intended, only yields a fair rate of interest on \$10,000, the circumstances, from an insurance point of view are unhealthy. This applies to vacant buildings, which are not only undesirable (not because of the moral hazard) but because of the danger of tramps using them for refuge, children playing about them, and the indifference of people to the value of vacant buildings, which develops carelessness about them.

The amount of insurance carried is related to the moral hazard question. Just as over-insurance is an incentive to fire, under-insurance is a deterrent. Unless, therefore, you are reasonably well satisfied that there is no moral hazard, it is important to know the values of the insurance carried and to keep the insurance down to a reasonable proportion of the value, say 75 to 80 per cent.

Risks likely to be adversely effected through a change of conditions which is not likely to come to the attention of the underwriter are not desirable. Take the country store off the line of railroad. A new railway line goes through the vicinity a mile away from the store, a new town springs up on the railway and the country store's business is gone. The gravelling of a road or a change in the trunk road through the locality might direct traffic in other directions and the country store's business is spoilt. Unless, therefore, you are in a position to keep in touch with these changing conditions, such risks are unstable and likely to prove unprofitable.

The occupation of the assured sometimes calls for a closer check of the assured than in other cases. As a general rule a doctor, minister, lawyer, bank manager are found to be a better class of assured than poolroom owners,

livery men, chauffeurs, mechanics, hotel keepers and such like.

The underwriter must keep well posted on constantly changing conditions, as they effect practically every industry. For instance, a lowering of the tariff on farm implements or textiles would seriously effect implement factories and textile mills, and in such a case the careful underwriter will review the business of these classes on his books.

A new invention for making shoes might render obsolete over-night a large portion of the machinery in shoe factories. An underwriter should learn and know of these things and be governed accordingly.

The use of the motor car and the development of the garage business has changed livery stables from a profitable class to a poor one.

Prohibition had its effect on the hotel business, although not nearly so bad as some underwriters expected. On the advent of prohibition in Western Canada some underwriters cancelled off a very large percentage of their hotel risks, others checked them up individually, cut down the insurance more in keeping with their investment value under the new conditions, cancelled off only a percentage of the least promising and have done well on them.

The radio has affected the talking machine business and, to some extent, the moving picture business. The war had a bad effect on pool rooms for there were no young men to play in them, and the older men were too busy with other things.

A prolonged falling off in the salmon catch in the Frazer River would affect all the canning plants dependent upon it for supplies. A slump in the paper industry will affect the pulp wood risks; a slump in lumber the sawmill risks. The thinning out of standing timber in a district will render a sawmill useless.

Take our own farming industry, its ups and downs, and the effect it has had on the underwriting results on farm business in Western Canada. A profitable business for years turned into a loss for four or five years running and now a change for the better. A few years ago Northern Saskatchewan was the prosperous section for the farmers. Underwriters were very careful about acceptance in the South until three good crops in the South and three poor ones in the North reversed the situation and now the North comes back again this last year with a good one.

These illustrate only a few of the hundreds of changes constantly going on which have a direct bearing on the fire

insurance business, and particularly the moral hazard feature, so that the successful underwriter must, of necessity, be well-informed on all these subjects.

Answers to questions appearing on the applications and daily records from time to time suggest features that should be enquired into in respect to the moral hazard:

For instance—

Is the building in good repair? A negative answer would affect the moral hazard as well as the physical hazard, and it would have a bearing on the insurable value of the building.

Any reference to a previous fire should be checked up to make sure there were no suspicious circumstances surrounding the event.

Has any company either cancelled or declined this risk? An affirmative answer would suggest either a severe moral or physical hazard, at least in the opinion of some underwriter, and most often moral hazard.

Do you keep a regular set of books in a fireproof safe, etc.? A negative answer would not necessarily suggest moral hazard, but the inability to establish values in event of destruction of the books through fire, coupled with a doubtful moral hazard, would make such a risk undesirable.

Is the stock mortgaged? This reflects on the financial stability of the assured, and suggests the possibility of moral hazard.

An agent's failure to fill out and sign the agent's questions or failure to definitely recommend the risk sometimes indicates a doubt in his mind and a reluctance to go definitely on record as recommending it. It is not generally wise to accept a risk your agent cannot recommend, unhesitatingly. Of course, an agent's recommendation is only as good as the agent it comes from. If he has actually inspected the risk, is conscientious and possesses good judgment it should count for a good deal. On the other hand, little faith can be put in the recommendation of a careless and indifferent agent who has not even taken the trouble to inspect the risk.

You are, of course, familiar with the ways of checking up on moral hazard, apart from personal inspection and querying of agents, information can be obtained through the mercantile rating agencies, retail credit companies, personal reports, bankers' reports, wholesalers, credit men, loss information bureaus, other companies, adjusters, etc.

If you have any doubt about the moral hazard of a risk check it up until you get sufficient accurate and favorable

information about it to remove that doubt from your mind. If you cannot do this, the risk is at least a doubtful one.

So much for the Moral Hazard.

PHYSICAL HAZARD

Now let us consider the Physical Hazard under four separate headings, such as Location, Class or Occupancy, Construction and Limit of Liability.

LOCALITY

In its broadest sense the consideration of the locality of the risk brings up the question of the section of the country in which it is located. There is the question of the climate. There are cities like Prince Rupert, B.C., with its 90 to 100 inches of rainfall in a year, and St. John's, Newfoundland, with its heavy mist and fogs, where these factors are important features in dealing, not so much with individual risks, but the business in this community in general.

A dry year in British Columbia, for instance, makes the writing of logging camps particularly hazardous. Yet a line on a large lumber yard in Western Canada during the winter time, or on cord wood in the bush, may be looked upon as particularly desirable because they are covered with snow. There is the risk on leased ground generally to be carefully looked into.

There is the farm risk located too far from a railway. Anything over fifteen miles is worth watching. There is the question of bush and prairie fire hazard. The accessibility for adjusting, which brings up the question of using an adjustment clause.

There are communities considered undesirable because of crop failures, or strikes, predominance of foreign element where their method of revenge and chief indoor sport is to burn one another out. There are communities such as mining towns, for instance, where there is generally a rough element to be found and a constant fluctuation in the population, which is a bad feature. All of these questions and many others arise out of the location of the risk although many of them are matters of moral rather than physical hazard.

Dealing with the specific location of an individual risk. There is the question of the public protection or lack of protection to be considered, proximity to hydrants, fire hall, nature of the roads in the vicinity, its accessibility from a fire-fighting standpoint. There are the exposures to be considered, not only next door, but across the street, for

very often a large building of inferior construction across the street is a much more serious exposure than the small one next door.

CLASS OR OCCUPANCY

Each company has its own experience to go by, and after all there is nothing quite so valuable as actual experience upon which to base your underwriting judgment. The larger your business the more carefully it has been classified, and the longer the period of experience the more reliable your experience figures for basing your judgment of the future. An underwriter should, therefore, know something of the actual experience on the various classes—the more the better—and he should not only judge by his own experience but learn as much as possible of the experience of others.

You must also bear in mind that the experience is likely to change on various classes and you should keep posted on these changes if you are to keep abreast of the times. Take, for instance, machine shops. The old type of frame, wooden-floored, crowded machine shop or foundry has had a very bad record, but the new machine shops and foundries with the metal frame and glass sides, earth or cement floors, well arranged plants, are quite profitable. Wholesale grocers may show a bad experience for years, but an increase in rate put into effect might change the experience from bad to good, or a reduction in rate would have the reverse effect on a class previously considered profitable.

Besides the common hazards of heating, lighting and power, etc., the underwriter should know something of the special processes employed, whether or not they are hazardous, and how these hazards can best be guarded against, so that in inspecting or reading a report on a risk he knows what to look for, and whether the safeguards in use are good, bad or indifferent. He should know the value of a proper blower system in plants engaged in dusty processes, the value of a properly built shavings vault in a woodworking plant, the value of properly arranged dipping tanks in a foundry, the value of journal alarms for detecting hot bearings on machinery, such as in elevators and the like. He should appreciate the difference between steam-heated and gas-heated boiling kettles in a candy factory, and the improvement in a saddlery risk where the collar-stuffing is done in a section cut off from the balance of the risk. Such details are endless and vary with every type of risk.

You must be well-posted on the volatile properties of various oils and chemicals in use in various industries. Take, for instance, an aluminum plant. I had occasion to underwrite a manufacturing plant a few days ago having

to do with the manufacture of aluminum. It was my first experience with this type of risk. I set about to find out all I could about it and was surprised to learn that what I had always considered an unburnable material when in dust form or small particles, is highly inflammable and when dampened with water very explosive.

It is, of course, a well-known fact that as a general rule building risks are to be preferred to the contents. An exception to this rule is the elevator risk where the grain line generally produces more salvage than the building. Very often the same is true of a skeleton building containing heavy implements or machinery not easily damaged by fire. Likewise live stock would be considered preferable to the building because it is out of the building so much of the time, and during which time is subject to very little hazard.

The combustibility and perishability of the contents lines being insured are important factors. Millinery, silks, fancy goods, tobacco stocks are not generally sought after. Millinery, not only because it is perishable, but gets quickly out of date, and sometimes difficult to establish the value in event of adjustment. Drug stocks and groceries are likewise subject to heavy damage. Fur stocks are not only subject to heavy damage, but very often large values are tied up in small parcels and a small fire results in a heavy loss.

Likewise pictures and articles of art are not considered desirable subjects of insurance—not that you must not write them, but you must be careful of the choice of your assured, the wording of your contracts and the limits of your liability. Ornate buildings such as theatres, churches, pipe organs, are subject to heavy damage. Hardware stocks are generally desirable stocks because of the stability of the business. Hardware stocks are not so frequently affected by changes in styles and are not combustible, and yet water damage in a stock of shelf hardware, particularly tools and cuttlery, is very serious because of the rust damage.

Then there is the motor car risks. A stock of new cars is generally considered preferable to a stock of second-hand cars, but this is generally due to the moral hazard feature. From a physical hazard feature a heavy smoke might do no damage whatever to a bunch of second-hand cars, yet serious damage to a new stock of high-priced cars. The following is a list of some of the classes of the least desirable character from the standpoint of occupancy hazard, and some of the reasons why they are not favored:

Tobaccos, biscuits and confectionery, tea and coffee stocks, drug stocks, fancy goods, silks, jewelry, cuttlery, florists' stocks, vinegar factories, owing to the perishability of the property insured.

Fur stocks, pictures and works of art, on account of perishability and large values in small parcels.

Printing machinery, linotype machines and other delicate mechanisms, representing large values.

Telephone apparatus, easily damaged, costly to repair.

Millinery stocks, perishable, seasonable and doubtful values in adjusting.

Large amounts on patterns, easily spoilt, doubtful value, difficult in adjustment.

Customers' good left at tailors, laundries and such like, second-hand, doubtful value, and difficulty of settling fair adjustment with multiplicity of interests involved.

Chickens, easily smothered by very small fire.

Large amounts on tenant's improvements, doubtful value—moral hazard—difficultly in adjusting.

One of the least desirable classes from an occupancy standpoint is the multiple occupancy risk. Multiplicity of hazards, poor housekeeping, no check on changing character of occupants, building generally split up with maze of partitions which not only feed a fire but prevent water reaching the source of the fire.

Just one more word on the physical hazard. If you don't know anything about the type of risk being underwritten, the process and materials used, etc., be sure and find out. You not only make sure whether the risk is desirable, but you add to your fund of knowledge.

CONSTRUCTION

Under the heading of construction you must know something of the fire-resistive qualities of various types of construction, and here again experience is of the utmost value, but reliable information on this phase of underwriting is much more easily obtained than it is on the experience of various occupancies. A study of the Quarterly Bulletin and literature published by the National Fire Protection Association will be found of great educational value along this line.

One thing that you must bear in mind is, that there is hardly such a thing as a fire-proof building. It is for this reason the term "fire-resistive" building has come into use in referring to buildings of superior construction instead of the old term "fireproof," which was applied to many buildings whose fire-resistive qualities were not in keeping with the name.

A whole evening or two could be used to advantage in dealing with the various types of construction, their weaknesses and advantages, the details of properly built chimneys, cut-off boiler rooms, proper wiring, protection for windows, doors, stairways, elevator shafts, and other vertical openings. They are all important, but time will not permit me to deal with the subject in that detail.

There is, however, a difference in the fire-resistive qualities of even frame buildings, due to the difference in the weight of the timber used, particularly in the floors and supporting columns. A frame building will very often suffer less damage than a metal building. Take for instance, these metal shacks we have along Portage Avenue. The heat generated through the burning of the contents would buckle up one of these metal shacks beyond repair; on the other hand the wooden shack would have to be actually burnt to be rendered useless, and the salvage could be much more easily repaired than is the case with a metal building.

A solid brick building is very often to be preferred to a hollow tile building unless the hollow tile is properly bound. The heavy mill construction building is, of course, to be preferred to the ordinary light open joist construction.

Don't allow yourself to be misled by the appearance of buildings in which there has been considerable unprotected steel used for pillars, cross-members and roof supports. The steel is not burnable and will not furnish food for the fire, but if there is other combustible material in the form of furniture, fixtures or stock sufficient to generate enough heat, the expansion of the steel will twist the steel members to such an extent as to bring the whole roof and sometimes the whole structure tumbling down.

No two buildings, even of the same type, are identical, so I will deal with the various features of building rather than complete types.

First the walls. The standard thickness for a fire wall is thirteen inches at the top, increasing by four inches for each story downward, and parapetted one and one-half feet above roof of adjoining buildings. A wall then, to be considered a cut-off, should conform to this standard; the walls of the risk being insured, and the adjoining risks are one of your chief considerations in setting limits, especially where you have adjoining liability. (And just here I would like to mention the importance of being able to read a fire map quickly and accurately, for it gives in minute detail practically everything the underwriter needs to know. The thicknesses of walls, whether or not they parapet, the window openings and what floor they are on, whether or

not they are protected, the kind of cornice on the building, the construction of practically every detail, the vertical openings and how they are protected, and the presence of various things such as boilers, gasoline engines, electric dynamos, etc., etc.)

It would be a serious mistake to place too much faith in a nine-inch brick wall, or overlook a string of unprotected windows on a severely exposed side. Some walls greatly exceed the minimum standard. The thicker the better. Down in some sections of Montreal, for instance, there are some splendid stone walls, as much as thirty to forty inches in thickness. These are real safeguards.

Where there are doors and windows on exposed sides or doors leading from one section to another, it is not very important to know that it is protected, but that the protection is standard equipment and in good working order, unobstructed by stock and not carelessly held back with something other than a fuseable link. And this again emphasizes the importance of regular inspection, otherwise you may be basing your retention on a cut-off that is really not there.

The roof is most important from the exposure and conflagration standpoint. A concealed space between the upper ceiling and roof is a bad feature that permits the spread of a fire unchecked, unnoticed and difficult to get at.

The floors vary in their fire-resistive qualities from the single-boarded floor, laid on open joists, and the mill-constructed floor of 2 x 6's laid on edge to the reinforced concrete.

In floor construction you must consider the probable carrying capacity, for a heavy stock on the top story of a lightly constructed building would go right through to the basement with very little weakening of the lower floors. The better built buildings also have the floors scuppered to direct the water in event of fire down some suitable avenue of disposal.

Vertical openings.—I have referred to these and the importance of all such being closed off. Even a wooden partition about stairways and elevator shafts in a lighter-constructed building will prevent the upward draft that would otherwise quickly envelope the whole building in flames. In the fire-resistive buildings, properly guarded openings from floor to floor and wired glass windows should enable the modern fire department to confine a fire to one floor of such a building.

The height and area of buildings are very important factors, both from an internal risk and exposure standpoint.

Supposing, for instance, a serious fire were to start right in the heart of Eaton's store. Imagine the difficulty of fighting it from the outside. Not only is it possible that once it got a good hold it would get beyond control, but it would be a tremendous exposure to even such a well-constructed building as the Somerset Block. The burning of Eaton's with a westerly wind would almost certainly create such an intense heat that the combustible material in the Somerset block would ignite all over the building. There was a recent illustration of this in Chicago in March, 1922, when the burning of a number of mercantile buildings radiated such a heat that the fireproof office building of the C.B. & Q. railroad, known as the Burlington building, was almost a total loss to the companies. This was a \$2,000,000 building of very superior construction, but the heat was so intense that it went right through the unprotected glass windows and set the combustible contents on fire, which consisted chiefly of office furniture. The fire did not communicate from floor to floor, but entered the windows of each floor and resulted in a loss of approximately \$1,000,000 which was 50 per cent. of the value of \$2,000,000, but about 75 per cent. of the insurance of \$1,300,000 carried. The insurance on contents of \$140,000 was a total loss.

The difficulty in fighting fires in buildings above the fifth floor is such that the careful underwriter generally keeps a lower limit on a stock on the 10th story of a fire-resistive building than he would on the 2nd. A combustible stock once on fire in a fire-resistive building makes a very hot fire, for the superior construction of the building retains the heat and has almost the same effect as if it were a stove.

Ventilation is important in certain types of buildings such as garages, flour mills, film exchanges. In the better built elevator, because of the explosion hazard the top and the upper sides are generally built of corrugated metal and windows that will blow out easily rather than resist the explosion, thus minimizing the resultant damage. The wisdom of this type of construction has been illustrated on two or three different occasions through explosions in the Harbor Commissioners Elevators at Montreal.

THE POLICY CONTRACT

In connection with the contract itself, there is the rate to be considered. A well-versed underwriter should have a pretty fair idea of what is and what is not an adequate rate. While the underwriters' rate is supposed to be adequate, it may not be. It may be adequate for the average risk of a particular class, but not for the one being dealt

with. I have even heard it said that if a risk is all right at 3 per cent. it is just as good at \$2.50. There is nothing further from the truth as such a statement. To my mind one of the outstanding and fundamental facts to keep constantly in mind is that the business of insurance is governed by the law of average, and if it takes an average rate of 3 per cent. to make a class of risk pay, then one individual risk written at \$2.50, which may never burn, may be considered all right, but you cannot deal with it on that basis.

You must think and deal in averages. It is this very law of average that gives the careful underwriter an opportunity to display his skill, for if in selecting his risks the large majority of them are above the average then he will have better than an average experience. On the other hand, if a large percentage of the risks he accepts are below the average of a class he can hardly avoid an unfavorable loss ratio; he may for a while, but in time it is bound to get him, for they say class will tell.

This is a good thing to bear in mind when you are tempted to pass on just this one risk for a persistent agent today. Tomorrow it may be another let slip up for an entirely different reason, but both below your usual underwriting standard. Gentlemen, on the average you can't escape the consequences. You may forget about these lines. Your average experience may still be good because you did not let enough of such lines by to spoil your general average and yet it would have been better without them. Every time you accept a poor risk your average possibilities are handicapped just that much.

There is a difference in opinion among underwriters as to the advisability of writing sprinkler risks where the rate is lower than 10 cents. While the low rate should indicate an excellent physical risk, some are of the opinion that the rate is so small that even a small loss would eat up some years of premiums. This is a case where the underwriter must use his own judgment in respect to the individual risks being dealt with.

The term sometimes has an important bearing on the desirability of the risk, for in the case of a short date line, although you benefit by the increased short date premium there are two disadvantages. In the first place, the company loses the opportunity of interest earning on a premium paid in advance for a longer period of time, and in event of loss the company retains and benefits by a much smaller premium than if the whole year's premium had been paid in advance. Very often short date lines are placed at the busiest season of the year. In the case of manufacturing plants when the factory is running over-time and in the

case of retail stores, such as the Christmas season, these are generally the most hazardous periods. During the busy period things become more congested and the housekeeping is not as good. These, then, are added unfavorable features in writing short date lines. This does not necessarily mean that short date lines should not be written. Short date lines on good risks should be all right, but it would be an added unfavorable feature in connection with a doubtful risk which might justify you in declining it.

The wording of the contract itself is, of course, a matter of outstanding importance in underwriting. Wordings and clauses and their various effects are a study in themselves and would furnish ample material for a full evenings discourse. I am, therefore, only going to refer to a few generalities.

First you should know the contract. An examiner should read it. I often wonder how some contracts get by some underwriters, for the things they contain or omit are such that it is difficult to believe they would write them if they really knew the full import of the contract.

In speaking to you regarding contracts I must bear in mind that some of you are acting in the capacity of company men and others representing agents and brokers—the one to make the wording as broad as possible, the other to confine it at least to the point contemplated in setting the rate.

From the company standpoint it is better to have everything specific. From the assured's and broker's standpoint the wording should be general in its terms and only specific where essential. However, I have been speaking chiefly from the standpoint of the company so far and will continue to do so.

Briefly, these are some of the things an examiner should watch in checking wordings:

Avoid clauses having the effect of making the policy a valued one.

Avoid clauses having the effect of making the company responsible for consequential losses unless such are contemplated in the rate.

Avoid large lines, including tenants' improvements and betterments.

Avoid wording extending cover to property of others.

Enquire carefully into contracts written for account of whom it may concern. Explain possible effect on co-insurance.

Check all permits carefully and make sure nothing is granted that should not be granted.

Concurrent insurance brings up two points for consideration:

1. The possibility of over-insurance and its effect on the moral hazard, which I have already referred to.
2. The probable amount of the company's contribution in event of a partial loss is governed by the amount of insurance carried in relation to the total value.

This also brings up the question of the Co-insurance Clause. On the better-constructed risks, in particular, if there is no Co-insurance Clause carried you should know the approximate amount of other insurance, bearing in mind a \$10,000 loss on a \$100,000 building would mean a total loss to a company who carried \$10,000 insurance, and where there was no other insurance, and on the other hand would only mean a 10 per cent. loss to the same company where the policy was subject to 100 per cent. co-insurance, or where there was other insurance to 100 per cent. of the value, even if it were not subject to co-insurance clause. The amount of other insurance carried, therefore, either with or without the co-insurance clause, has a very important bearing on your decision regarding the net amount it would be advisable to carry.

DISTRIBUTION OF LIABILITY

Since the law of average plays such an important part in the business of insurance, anything that upsets the law of average is to be avoided if possible. This makes paramount the avoiding of large limits on individual risks, large concentrated values and the minimizing of disastrous losses through conflagration.

A well-balanced table of limits is, therefore, of the utmost importance. A large company doing a big business over a wide territory can write larger lines than a small company, but the larger company's limits should be just as carefully balanced as the small company's and its block and conflagration liability should be even more carefully checked, for the more business it has the greater the danger of concentrated values.

Limits are not always based on what a company can pay, if it has to, but on the average amount they feel it would be wise to pay on losses of a particular type, and this is also governed by the average size of the lines they are likely to be able to get. If the average line written on a country store is \$2,500, gross, then by some underwriters it might be considered unwise to set the limit at \$5,000 for a \$5,000 loss would be out of line with the average risk carried on that class. Generally speaking, the less the

possibility of fire the greater the limit. In setting a limit it is not always contemplated that a fire would result in a total loss. Indeed, the limit is incurred in the direct ratio that the possibility of a total loss is reduced, and so a limit of \$2,500 on contents might justify a limit of \$3,500 on the building, because there is generally more salvage on the building. Likewise a limit of \$5,000 on an ordinary building might justify a limit of \$10,000—if it were sprinklered or of fireproof construction, and \$20,000 if it were both sprinklered or of fireproof construction. This is, of course, a matter of individual judgment with each underwriter. If it is a sectional risk and you figure 25 per cent. on the whole value is subject to one fire, you must determine the amount you care to risk in one fire and multiply that by four to get your total limit.

In setting limits in fire-resistive buildings it is common practice to set a stated limit of say \$5,000—on any one floor or stock, and say, \$25,000 or more over the entire building.

There is no set rule for splitting up liability over a number of exposing risks, but I believe some companies keep, say a limit and a half over two adjoining risks, or two limits over three or four adjoining risks, depending on their character and the extent to which they expose one another.

In addition to setting limits on individual risks and adjoining risks, it is wise to set a limit over a group of buildings, such as a group of farm buildings or a frame or ordinary brick range.

Next comes the block limit. This is the maximum amount it is felt wise to keep gross or net in a whole city block.

The next step is the conflagration liability. Mapping out possible conflagration areas. Measuring a conflagration area with a perlimeter determining the acreage and limiting the total liability to so much per acre, irrespective of the distribution within the conflagration area.

REINSURANCE

In giving off reinsurance there are one or two general rules it would seem wise to follow. First—In giving off your liability you should do it in such a way as to spread your net retention as much as possible. Second—You should keep as much as possible of the most desirable portions of the risk, that is to say, on the building in preference to the contents in the majority of cases.

The question also arises as to whether it is advisable to write full gross lines in all cases where insurance is available. Your arrangements with your reinsuring companies have an important bearing on this. If, for instance, your company is operating on a profit commission of, say 15 per cent., and you are able to write, say your own net line and five lines with your treaty companies, in event of a loss you would stand to lose not only your own net line of say \$2,000, but you would lose 15 per cent. profit commission on your reinsuring companies five lines of \$2,000 each, that is \$10,000, and so your real loss would be \$2,000 plus \$1,500 profit commission, total of \$3,500. It is also true that where there is no fire you benefit by your own net premium, plus 15 per cent. of the five lines given the treaty companies, which, to some extent, justifies you in taking a chance on the lines and yet, I believe, while it is wise to fill up your gross limits on all good risks your gross limits should be shaved down in proportion to its desirability and then it would not be wise to write more than one-third to one-half of your gross lines on risks below average desirability.

Accepting reinsurance business from other companies. Business accepted from other companies, is in my opinion, to be underwritten just as carefully and in some cases more carefully than if it were received through your own local agents; in fact, there is some business you would be justified in accepting from your own agents that you would not be justified in accepting as reinsurance, for your local agents are entitled to a certain amount of accommodation on their average business because of the more desirable risks that they give you, whereas each reinsurance line accepted should stand on its own feet. In the case of your own direct business you only write it where you have agents; consequently have an opportunity to inspect it. Sometimes reinsurance business is offered in localities where you have no agents, and, consequently, you are not likely to inspect it. This is a bad feature, unless it is known to be good business. Reinsurance business is generally above the average commission cost; consequently should not be below the average desirability.

I have mentioned dozens of things that must be checked up that have a bearing on the desirability of the risk, none of which in themselves may be important enough to justify you declining the risk. Yet risks are not always declined because of some one outstanding objection, but very often because of a combination of circumstances which, in your opinion, reduce it below the average.

If in doubt about a risk, I often ask myself the question: If this risk burns tonight, will I feel justified in having accepted it and in having kept the limit I propose to keep on it? Will I feel satisfied that I knew the risk and displayed fair judgment in accepting it? If I feel I can honestly justify my action from an underwriting standpoint I take it. If I feel doubtful of being able to do so, I avoid the risk if possible.

I must admit frankly I have been somewhat overwhelmed by the size of my subject. Let me emphasize again that the views I have expressed are only my own, offered for what they are worth and not put forward as the correct or final word on the subjects dealt with. I apologize if I have tried to cover too much, boring you unduly, rather than covering less and that more thoroughly, but the more I learn of the business of underwriting the more there seems to be to learn, so much so, in fact, that I think it must have been the business of underwriting that gave rise to the saying, "The first hundred years are the hardest."

Literature and Business

LITERATURE AND BUSINESS

By H. J. RUSSELL, F.C.T., F.F.T., Com.
of St. John's Technical School

"You," said Demosthenes to his great rival orator, Aeschines, "make them say, 'How well he speaks.' I make them say, 'Let us march against Philip.'"

Here we have two orators speaking against an enemy. The one succeeds in arousing the admiration of the people, but the other succeeds in arousing them to action.

To some extent, the difference between English in literature, and English in business, is indicated by this story. The aim of literature, it might be said, is to entertain, and the aim of English in business is to induce action. It is difficult, however, to put the whole truth in a sentence. Literature does entertain, but at times it also arouses people to action. The books of Dickens are entertaining but they were at times instrumental in forcing investigations that led to social reforms.

The business correspondent wishes to arouse to action those who read his letters, but he has not the courage to write a letter in the tone of the one that follows:

Dear Sir:

Your policy, No. 12345, is enclosed. Send us at once a cheque for \$45.00.

Yours truly,

On the contrary, he prefers to say something like this:

Dear Mr. Bennett:

The policy that is enclosed provides you with protection until 12 o'clock noon, June 25, 19.....

Please read carefully the various clauses so that you may become acquainted with the special features of our policies. We shall be glad to explain points about which you may desire more information.

The premium, \$45.00, is payable on or before the 20th instant, and your cheque in due course will be welcome.

Your selection of our company for insurance service is much appreciated.

Yours very truly,

A brief examination of this letter shows the dependence of the correspondent upon literary form. In the first sentence, he could have said:

"The policy that is enclosed insures you against fire. . . ."

He chose, however, consciously or unconsciously, to use the literary device of alliteration, as indicated by the words underlined.

In the second sentence, another tool of rhetoric is used—the climax—because the reader must follow to the end of the sentence before he can learn the reason for reading the clauses. This sentence contains also a figure of speech. The writer might have said:

". . . so that you may know something of the special features. . . ."

Instead, he has used a form of personification, and said, ". . . so that you may become acquainted with. . . ."

In the penultimate sentence, the use of the word "welcome" is also suggestive of personification.

It is clear, then, that the business correspondent is not averse to the use of literary forms; that, while he wants his letters to be business like, he is also willing to have them entertaining.

Mention has been made of the figure of speech, and it is to this device of literature that I wish to direct your attention this evening.

A figure of speech is a deviation from the ordinary form of expression for the purpose of making language clearer, or more forcible, or more pictorial; as, "Bread is the staff of life." We could say: "Bread is necessary to human existence"; but, compared with the metaphor, such a statement is lacking in clearness, force and picturesqueness.

The Greeks and Romans named some hundreds of figures of speech, and thousands of figurative expressions are contained in the Authorized Version of the English Bible. These expressions are, in a recent Oxford University Press edition—The Companion Bible—classified under one hundred and eighty-one headings. Today, the tendency is towards simplification, and for modern purposes, figures of speech are not so minutely distinguished. For ordinary usage, they may be studied under about twenty-five headings. In this lecture, I propose, with your indulgence, to deal with ten of these:

FIGURE	DEFINITION	ILLUSTRATION
Alliteration.....	The repetition of the same letter or sound in successive words, or in words at short intervals.	The silent, sibilant, sombre, sinuous, stealthy conger eel.
Allusion.....	Reference to some place, personage or event.	"A Daniel come to judgment! Yea, a Daniel!"
Balance and Antithesis.....	The balanced sentence is one in which the parts or clauses are constructed on a similar plan. Antithesis, or the production of contrasts, is secured in balanced sentences.	The greatest friend of truth is time; her greatest enemy is prejudice.
Climax.....	A figure in which each word, phrase, or clause is more forceful than the one immediately preceding it.	They found grand and gloomy forests, majestic rivers, and mountains covered with eternal snow; but there were no friends to greet them, no homes to go to, nothing but the genial heavens and the generous earth.
Euphemism.....	The expression of unpleasant facts in agreeable language.	And thou shalt go to thy fathers in peace; thou shalt be buried in a good old age.—Genesis 15: 15.
Hyperbole.....	Exaggeration for the sake of emphasis.	"Why, man, if the river were dry, I am able to fill it with tears."
Idiom.....	A desirable expression peculiar to a language.	To have a hand in. Have a mind to. Of a piece with.
Metaphor.....	Metaphor implies a certain likeness between two unlike things, by speaking of the one as if it were the other.	Books are the legacies that genius leaves to mankind.
Personification...	The endowment of inanimate objects or abstract ideas, with the attributes of life.	Can honour's voice provoke the silent dust, or flattery soothe the dull, cold ear of death?
Simile.....	An expressed comparison between unlike things having some characteristic in common; usually introduced by "like" or "as."	The mind is like a garden which may be either cultivated or allowed to run wild.

The peculiar form of a figure of speech may not be true, or so true, to the literal meaning of the words, but it is more true to the real sense, truer to truth.

In support of my assertion that the business writer is dependent upon literary devices, I wish now to refer for a few minutes to volume three of the proceedings of your Institute, the lectures that were delivered in 1924-1925. These lectures are concerned with discussions of certain aspects of business—more particularly, the business of insurance. By some people, they might be thought dry, but for myself, I found considerable pleasure in reading them, not only for the practical information that they contained but also because the lecturers have used, time and again, in a very effective manner, many figures of speech, including all of those that I have listed. May I present a few examples?

- Alliteration.....Too many men, for the sake of saving momentarily the few dollars that insurance premiums cost, fail to cover their needs, particularly at the peak stock periods of the year.—(Page 43).
- Allusion.....An agent should never allow a customer to find him "asleep at the switch."—(Page 91).
- Balance and
Antithesis.....He who does not write as well as he can upon every occasion, will soon form the habit of not writing well on any occasion.—(Page 54).
- Climax.....The subject which we are going to consider briefly this evening is that of the characteristics and principal hazards of a country grain elevator.—(Page 105).
- Euphemism.....In over-insuring a car, you are in some cases creating a moral hazard which previously did not exist.—(Page 74).
- Hyperbole....."Too many agents," is the cry heard on all sides.—(Page 95).
- Idiom.....The buyer seemed to know his business and seemed to be desirous of helping, and for a time we were at a loss to understand why his boot pulley was allowed to get into the state in which it was found.—(Page 114).
- Metaphor.....Insurance is a shield—a cover.—(Page 36).
- Personification.....Figuratively, it is nothing more than an artificial dressing applied to the face of Mutual insurance for the sole purpose of making it more comely in the sight of those whose favor it seeks.—(Page 27).

Simile.....Our object will be to find out the quality of the protection offered; as a simile, we might consider the case of two men who were in fear of bodily harm from enemies. One man hires an army, the other buys a fox terrier. . . . We shall try, tonight, to find out which insurance offers the protection of an army, and which that of a fox terrier.—(Page 23).

Continued or sustained metaphor is one of the most difficult forms of writing. An example is found in the following selection from Macaulay:

“In the vast field of criticism on which we are entering, innumerable reapers have already put their sickles. Yet the harvest is so abundant that the negligent search of a straggling gleaner may be rewarded with a sheaf.”

It is interesting to note that even this form of writing is to be found in the proceedings of your Institute. On page 90 we read:

“Somewhere I have read that the agent is the key. The company and the assured are in different rooms, but there is a common connecting room in between these two rooms. The live agent is the man who can open the connecting doors and allow the company and assured to come into the same room, where a friendly agreement will soon be reached.”

I thank you, ladies and gentlemen, for your courteous attention to these remarks and, in closing, I venture the use of personification to the extent of saying that I hope I have made it clear that without injuring the one and without weakening the other, Literature and Business may walk hand in hand.

Fire Insurance

FIRE INSURANCE

By W. J. BLACKBURN

Secretary, Western Canada Insurance Club

When your committee was arranging for the lectures to be given to the Institute this year, they asked me if I would give you the talk that I have been giving before Service Clubs and Business Organizations on my trip West. I do not think there is anything very new in this talk, or that I am presenting very much that you do not know already, but the object is to give business men a better understanding of our business of fire insurance, and it is thought that the information may be helpful to you in answering questions which will be presented to you by the public.

Owing to the very technical nature of the business of Insurance it is not an easy business to explain and owing to the fact that the average business man has no real reason for obtaining a knowledge of the workings of an insurance company, because his insurance comes up only once or twice during the year; he gets his policy and pays his premium and outside of these transactions he has very little need for learning anything about the handling of the business and for this reason a great mystery has grown up about it, a most unnecessary mystery, which it is the object of the modern Underwriter to dispel, but as I say that owing to the technical nature of the business this is more or less of a difficult proposition, in fact, the insurance companies and the general public are very much in the position of two negroes, one of them had a watch and neither of them could tell the time and one of them said to the other, "Mose, what time is it?" and the other took his watch out of his pocket and held it out and said, "There she is." The other looked at it a moment and said, "Dogoned if she aint."

The main thing that interests the business man is rating and before taking up this subject I should like to impress upon you the fact that my remarks apply only to what are known as schedule rated towns and not to those places which are rated under the "C" or minimum tariff.

In the first place, all rates are made for Western Canada by the Western Canada Fire Underwriters' Association, more commonly known as the "Board." The average man's idea of the "Board" is that, a few company managers get together at infrequent intervals for the purpose of making rates and the process is somewhat as

follows: One of them will say, "Here's John Brown's saw-mill. He's been making money lately and he recently had a little fire, let's boost his rate," and his rate is accordingly raised.

That, as I say, is the average man's idea, but I would like to tell you what the "Board" really is.

In the first place, it is a voluntary and unincorporated body, organized for the purpose of making rates for the companies. It is supported by all the tariff Stock companies but no one company or any group of companies has control. It does all the work of inspection for the purpose of rating for all the companies which would otherwise have to be done by the companies individually.

If it were not for this centralization of work under the "Board" the companies would have to make all their own inspections for the purpose of rating individually. As an example, if twelve companies were interested in a certain building, they would each have to send an Inspector to inspect the building for the purpose of rating, but instead of twelve Inspectors being sent the "Board" sends one man and the cost of this work is pro-rated amongst the companies and by this centralization of effort a great saving in the cost of insurance is effected. In fact, this alone is one of the biggest factors in keeping down the cost of insurance.

The "Board" is not a one man institution; it employs over sixty employees and occupies two floors in the Paris Building, and maintains an Inspection Bureau at Calgary for the convenience of Alberta.

It might be thought that an organization of this kind is costly, but the actual cost to the companies averages 1.096% of their annual premium income.

In this connection I should like to read you an extract from a report of Justice Masten who, at the request of the Ontario Government investigated the Canadian Fire Underwriters' Association which is the counterpart of the Western Canada Fire Underwriters' Association in the East.

The report says, in part: "I am of the opinion that the operations of the Canadian Fire Underwriters' Association have been and are to the advantage and interests of the public and that such a combination tends strongly to maintain the solvency of the companies, to stabilize rates, to eliminate discrimination, and to assist in controlling the expenses of carrying on the business."

Insurance rates, like gas and electric light bills, are always viewed with suspicion and for a similar reason, that is, the recipient is not familiar with the instrument of

measure. Rate making is not a hit and miss proposition; rates are based on scientifically prepared schedules which take into consideration the experience of all the companies writing insurance in Canada over a long period of years and from this compiled information standards are made for the measuring of the fire hazard and the fire insurance companies simply hold up the yardstick against which the hazard is measured but this done scientifically and accurately and then in a spirit of unselfish service they offer, through a system of penalties and credits, a direct financial incentive to every property owner to reduce the hazard of his specific risk and by so doing lessen the contribution that he and his neighbors shall be required to make to the general insurance fund.

In rating any specific building the following procedure is adopted: In the first place the City or Town in which the risk is situated is classified and to show you what I mean by scientific rating there are one hundred and thirty-eight points taken into consideration in classifying a city. These include the water supply, fire department, the fire alarm system, police protection, the building laws, the hazards of electric lighting and heating, oil lighting and heating, gas lighting and heating, the Municipal bylaws regarding the storage and sale of explosives and inflammables, the structural conditions as to fire breaks, street widths and, finally, climatic conditions. From the survey thus made of the town a basis rate is made and this is the starting point for rating any specific building.

In rating the building itself a survey is made taking into consideration the following points:

First, the construction of the building, this takes into consideration the construction and height of the walls, the interior finish, the floors, the area of the building, possibility of small frame rear extensions, the floor openings such as elevator shafts and stairways, well holes, chutes and dumb-waiters, the skylights, the protection of iron columns and beams, the lighting, heating and the construction and care of the chimneys, the construction and composition of the roof, power, if any is used, and the possible faults of management (good or bad house-keeping).

Next in order comes the occupancy of the building and charges are made to the building rate according to the hazard of the occupancy. Then the question of protection, this is entirely internal protection such as standpipe and hose, fire extinguishers, casks and pails or watchman service and similar methods of inside protection.

Then there is the question of exposure, the building itself may be of good fire-resistive construction but it may

be in a district made up principally of badly constructed or frame buildings and it is, therefore, necessary in the rate, to charge for possibility of fire from these exposing buildings. From the points which I have mentioned the rate on the building itself is made, than the rate for the occupants of the building is made by adding to the building rate a proportionate charge according to the damagibility or combustibility of stock or merchandise carried by the occupants and thus it is apparent that the merchant carrying a highly inflammable stock will pay a proportionately higher rate even though he is in the same building as a man carrying a non-hazardous stock.

The fact that I should like to bring to your attention in rate making is this, that rates are all made through a system of standards. In the first place a standard for cities and towns is made, then the town to be rated is surveyed and this survey is compared to the Standard and deductions are made for anything that is better than standard and charges made for the points where the city water protection, etc., falls below the standard, in the same way a standard is made for the various types of building construction and the building to be rated is compared to standard and in the same way deductions and credits are given and the individual can secure through his agent from the Underwriters' Association a detail showing exactly how the rate of his particular building is made up and in this way learn the deficiencies in the building from standard. The remedying of these deficiencies will reduce his rate.

In other words, rates are entirely in the hands of the public. They can bring their buildings up to standard and secure the lowest possible insurance rate and in doing this the individual will not only be benefitting personally through rate reduction but he will be making his risk better and in this way improving the fire conditions in his town, which eventually tend to reduce the town or basis rate.

Another point which I should like to bring to your attention is the service of the Underwriters' Laboratories. The Underwriters' Association and the Laboratories have often been accused of creating monopolies through their inspection of the fire extinguishers and fire doors and windows, etc., but the Underwriters' Laboratories label on the fire door or extinguisher or any of the many things which they inspect is really equal to the sterling mark on silver. To give an example of what they do, in the case of a fire door, and this same system applies to everything they inspect. The manufacturer sends his fire door to the Underwriters' Laboratory and it is tested under exactly the same conditions it would have to stand up under in case of

a conflagration. The fire door is set up in a brick wall which is slung on a travelling crane and this wall is put in a gas furnace and the door is subjected to exactly the same heat and flame conditions which it would have to withstand in a conflagration. After a certain time which is gauged by the time necessary for a standard building to burn the fire door is taken out on the crane and subjected to a water test from a standard fire hose and if it stands up under this test, which it would have to stand under ordinary conditions in a fire, it then receives the Underwriters' label and in order that the public may be assured that every door which they buy from the manufacturer will be up to the standard passed by the original door, which was subjected to the test, every door which the manufacturer makes is inspected by the Underwriters' Laboratory Inspector to see that it is made in exactly the same way and contains exactly the same material which was in the original door submitted. In other words, the Underwriters' Laboratory guarantees to the public who are purchasing these particular doors that the doors themselves will do everything that the manufacturer claims for them.

I haven't the time to tell you of the many tests and the various types of material which are tested in this way by the Underwriters' Laboratory but their inspection covers fire doors, sprinkler heads, sprinkler systems in general, automobile locks, automobile bumpers, fire tests on roofing material, and fireproof safes, flooring material, electrical supplies, fire hose; in fact, out of every sixty feet of fire hose which is manufactured a piece is sent to the Underwriters' Laboratories for test, and these are only a few of the many things which are inspected not only when the article is originally produced but at all times.

And this service is not carried on for profit but it is done at actual cost. The manufacturer in sending his article or material to the Underwriters' Laboratories for test pays for the actual cost of material used in the test and the expert's time in making it and any one manufacturing any fire preventive apparatus or material can secure this service at any time at cost and be certain of a disinterested and scientific and accurate test of his material, and the public, as I have said before, is assured that the Underwriters' label on any goods which they have tested is equal to the sterling mark on silver and assures them that the material or apparatus will do everything that is claimed for it.

The next point I should like to take up is the question of fire waste and the necessity for measures of fire prevention.

In the first place, let me explain the Companies standpoint. The average man on the street considers that the companies are in favor of fire prevention because they can, through this means, reduce losses and increase their profits. This is entirely an unjust and unwarranted statement. The companies realize the necessity for fire prevention because they are constantly in touch with fires and studying the conditions which cause these fires they find that 85% of the fires are preventable and the majority of them are due to pure carelessness and in addition to this if the citizens of Canada will endeavor to carry on fire prevention they will help to reduce Canada's fire waste and a reduction of Canada's fire waste will automatically reduce fire insurance rates. In other words, the insurance companies offer the only reward for carefulness. If Canada's fire waste is reduced, Canada's insurance rates will also be reduced, as an example of what I mean, Great Britain's fire waste is one-fifth of Canada's and Great Britain's insurance rates are also one-fifth of Canada's.

Canada stands in the unenviable position of leading the world in fire waste. Our fire waste last year was approximately \$50,000,000.00, which meant a per capita fire loss of over \$5.14 per head population. This is the highest in the world.

I said a moment ago that the principal cause of fire was carelessness. Let us examine into the five leading causes of fire last year both in Canada and the United States. The leading cause of fire which caused the \$26,000,000.00 of damage was careless smoking. The man who threw away his cigarette butt before he was certain it was out and the man who tossed the odd match into the waste basket caused this damage. The second cause was defective chimneys which accounted for \$20,000,000.00 of fire damage. The third leading cause was stoves, furnaces and boilers through not having the flues and pipes properly cleaned which accounted for \$18,000,000.00. The fourth cause was spontaneous combustion in oily rags and rubbish. This caused \$16,000,000.00 of damage. The fifth leading cause was electricity, rather the misuse of electricity through putting pennies in fuse boxes and leaving the current on in electric irons and toasters and similar electric appliances. This caused \$12,000,000.00 of damage.

The conflagration at Strathmore, Alta., was caused by a janitor who forgot to clean a coal oil stove which promptly exploded and the resulting conflagration burnt up half the town. There was a recent disastrous fire at Bowden, Alta., which was caused from sparks from an

anvil in a blacksmith's shop falling into rubbish. This also destroyed the main business section of the town.

The principle remedy for fire waste is care, but there is a movement on foot in Canada for the establishment of permanent fire-prevention bureaus in the larger cities and towns. These bureaus are to be composed of representative business men who will enquire into the city ordinances for the prevention of fire and study the building code and electric code for the same purpose and also give support to the chief of the fire brigade and shall have for their object at all times the preaching of fire-prevention and carefulness to the citizens. This movement has the support of the Dominion Fire Commissioner and Provincial Fire Commissioners and it is to be hoped that when it is presented to the citizens of Winnipeg that it will also have their support.

One of the objects of such a bureau would be the creation and organization of a salvage corps.

A Salvage Corps is a branch of the fire department and its purpose is to prevent unnecessary water and smoke damage at fires.

To show you what a Salvage Corps can do, I spent a day with the Chief of the Salvage Corps in Chicago recently and he showed me one fire which had occurred a few days before and where the Salvage Corps had been most effective. This fire occurred in a furniture factory which manufactured very highly polished furniture, such as library tables, chairs and desks. The building in which the fire occurred was divided into two sections and fire started on the top story of one of these sections. This floor was completely gutted and in addition to hose streams a water tower was used and this poured water into this floor for the better part of three-quarters of an hour, but due to the operations of the Salvage Corps the only damage done on the floors below the fire was three or four holes cut in the floor by the Salvage Corps themselves.

At the first alarm the Salvage Corps entered the building and covered the stock on the floor below with rubber sheets, a very difficult matter as the stock was piled to within about eighteen inches of the ceiling. They then made catch-alls of other waterproof sheets by tacking them to the beams and the columns below the ceiling and these caught the water as it came through the floor. They had to work very quickly and were only able to put these catch-alls up unsystematically but on the floor below this they again built catch-alls and directed them so that the water coming into them was diverted and ran out through the windows to the street below, and members of the Corps stationed themselves under the catch-alls on the first floor

and cut holes in the floor and swept the water as it came through into the well-arranged catch-alls below. After the fire was put out the Salvage Corps cleaned up the building, swept the water from the floor and repaired the damage which they had done and although this fire occurred on a Sunday afternoon and burnt off half of the top floor of the building, the plant was in operation on Monday morning.

It is estimated that 75% of the fire loss is composed of water and smoke damage to stock and the Salvage Corps would save at least 75% of these losses.

As an example of what the Salvage Corps could save, we had a fire some two years ago in the Brewers' & Bottlers' Supply Co. The fire damage was about \$500.00 and the water and smoke damage in excess of \$25,000.00.

While it is suggested that the city shall pay for the Salvage Corps organization and upkeep through ordinary taxation, the reduction in rate which will be accomplished by the establishment of the Corps, will mean a saving in insurance premiums to the City of Winnipeg of somewhere in the neighborhood of \$65,000.00 a year, which not only pays the annual upkeep of the Salvage Corps, but will eventually pay for the initial cost.

The City of Cincinnati is an example of what a Permanent Fire Prevention Bureau and Salvage Corps will do. Some ten years ago a Fire Prevention Bureau, Salvage Corps and a Clean-up, Paint-up campaign were organized in Cincinnati. This has operated efficiently ever since then and the insurance rates of the city have been reduced three times, giving a total reduction in insurance rates of 37%, which means a saving to the citizens of this city of over \$850,000.00 a year in insurance premiums.

Fire prevention is good citizenship.

Finally, let me say a word in justification of the Insurance Companies in Canada. There is probably no other business which suffers from such a barrage of criticism, not only from the insurance public who are unaware of the operations of the companies, but sometimes from hostile governments who take a misguided interest in the companies' business.

In the first place, there is no business which carries a greater service to the modern business man.

What would happen if the protection offered by insurance was for any reason withdrawn?

The wheels of commerce would stop.

The banker would call in his loans.

The factories would close down.

The mechanic would lay down his tools.

And the farmer could not move his crop.

All because in these modern days the business world moves on credit, and without the security which insurance provides credit in any large measure would be impossible.

Not only is insurance the backbone of the credit of our country today but the insurance companies are ever thinking ahead and creating new classes of cover to meet changing business conditions and protect the hazards of modern business.

Use and Occupancy, a comparatively new form of cover which indemnifies the insured for, among other things, the loss of profits occasioned by fire, was created by insurance men for the modern business man. The insurance companies were not asked for this particular class of cover but created it themselves so that they could serve the modern business better.

The aeroplane has recently become a commercial proposition and insurance men were not backward in creating a cover to protect and cover the hazards of this new business.

Insurance has covered the civilized world and insurance has gone hand in hand with the pioneers of each new country so that the new businesses which are started for the convenience of the new citizens have not had to face the devastating loss caused by fire without ample protection.

In each country in which insurance has entered it has not only provided protection but it has also assisted in the success and prosperity of the country. The investments of the insurance companies in Canada which are on deposit with the receiver general for the protection of Canadian policyholders total \$282,000,000.00 and over \$200,000,000.00 of this amount is invested in Dominion, Provincial and Industrial Bonds so that the companies are not only providing protection for the policyholders in Canada but they are also supporting and helping the municipalities and industries of Canada to prosperity by investing their money with them and this amount does not by any means represent the total amount of monies invested by the companies in Canada as their private investments are as much again, also in Canadian securities.

The enemies of sound insurance will point to the large profits which are apparently made by insurance companies but a survey of the Dominion Government figures will show that the average loss ratio of the companies in Canada for the period from 1869 to 1924 is 58.18% and the average expense ratio of the companies is 32% and the average ratio of taxation is 4% of their premium income, a total of 94.18%. In other words, the companies in fifty-seven years represented by this period have made less than 6% under-

writing profit in Canada and yet in this period the average rate per \$100.00 of insurance in Canada has consistently been reduced. The question that might well be asked at this particular point is: How do the insurance companies make their money?

The insurance business today is getting very much like the banking business where very small profit is made on a large turnover.

In the last four years in Canada the loss, expense and tax ratio of the insurance companies have been over 103% but in this period we might take fifty companies and in analyzing their operations find that twenty-five of them were making money and twenty-five were losing it hand over fist, thus producing the average ratio, but the profits of the ones which are making money are not turned over to the shareholders but the majority of this profit is put into a reserve fund in order to take care of the possibilities of a conflagration and if it were not for the foresight of the companies in building these reserves such fires as Toronto, Ottawa, and San Francisco would have been national disasters and it is on the investment of these reserves and the capital of the company held for the protection of the policyholder that the modern Underwriter makes his profit. As I said before, during the time that we have a government record of the insurance business in Canada, even though the underwriting profit has been less than 6% the cost of insurance to the public has been consistently reduced. Even during the war period when all commodities necessary to the business life of an insurance company increased anywhere from 50% to 250%, the average rate of insurance was consistently reduced. In evidence of this fact the Dominion Government figures show that the average rate for \$100.00 of insurance in Canada in 1913 was \$1.21 and in 1924 was \$1.00. The companies could have quite easily said to the public, "Everything is costing you more on account of the war and you must naturally pay more for your insurance," a statement which would have readily been accepted by the public at that time, but the insurance companies did not take advantage of abnormal conditions in order to make unwarranted profits.

In conclusion, let me remind you of the Western Canada Insurance Club, the organization that I have the honor to represent. In the Club offices we have a wealth of information that should be of value to you and we don't want you to hesitate in making use of the Club at any time as it will be a pleasure to be of service to you.

Insurance Wordings

INSURANCE WORDINGS

By W. D. LAW
of The Ryan Agency, Limited

The subject which was suggested to me to talk to you about was "Insurance Wordings."

The first thought that occurs to me in this connection is whether or not you realize the importance of an insurance wording. I am sure, in a great many cases, that those who have drawn wordings do not realize what an insurance wording means, judging from many that I have read. The wording is the most important part of an insurance policy. The policy itself is a standard form. The Statutory Conditions included in a policy are defined by the laws of the various Provinces and they cannot be changed except by the wording which is attached to the policy. The wording is the contract between the insurance company and the assured, and the only change which can be made in the Statutory Conditions has to be made by the insurance wording.

In talking about insurance wordings, I am referring more particularly to risks of some considerable size, as wordings for dwellings, household furniture, general stores, and risks of a similar nature, are pretty well standardized, but even in connection with them, there are conditions which should be looked into, to see that your client has the proper covering.

It is on the larger risks that great care must be taken in the preparation of a wording which gives your assured the proper covering, and at the same time protects the insurance company which you represent.

Before starting to prepare an insurance wording, you should become familiar with the risk and know what your client should have in the way of insurance protection. In the majority of cases your client knows comparatively little about insurance and about the restrictions which the Statutory Conditions impose, and, therefore, he is depending upon you, and if you make a mistake, it might be a very serious misfortune for your assured in the event of a fire, and because of a mistake on your part, he is unable to collect his insurance. There have been cases where a mistake has caused the bankruptcy of an assured. There have also been cases where the broker has been sued by an assured because of the fact that he did no properly draw the insurance wording. You will, therefore, see that there is quite a responsibility placed on those who have to pre-

pare insurance wordings. As a matter of fact, there is double responsibility, as the insurance company which you represent also depends upon you to protect their interests.

After learning what your client requires in the way of insurance, the next thing is to prepare a wording to fit the particular risk. Inasmuch as insurance contracts are written for a year you have to think ahead and have your insurance wording cover the conditions which will exist during the succeeding twelve months the policy is to run—meaning by this, you have to make your wording broad enough to cover changes which might occur in the risk. Of course permission cannot be given for changes which are material to the risk as the Statutory Conditions govern these, and notice of any change, which is material, has to be conveyed to the various insurance companies.

You have the Underwriters' Association rules to comply with, and your wording necessarily has to follow these rules. Many of these rules are very restrictive and in many cases it is very difficult to give an assured a contract which fully covers. Of course the contract could be made to cover other than is permissible by the rules of the Underwriters' Association, but this would mean an extra charge in the rate. Naturally, you are obliged to give the assured the very best rate possible, this, of course, being brought about by competition.

One of the first things to decide is whether a blanket form, general form, or specific form should be used. I will speak more about these forms later. After deciding which would be the most advantageous (and they all have their advantages) the first thing, of course, is to have the name of the assured included in the contract properly, meaning by this that if a company is an incorporated company, the insurance contract should be written exactly the same way as the incorporated name. In many cases this is not done.

The next thing is to have the location of the risk accurately set forth in the contract. It is most important from a company's standpoint, that the building be properly described, including a description of the occupancy of the building. The insurance companies underwrite the risks accepted by them largely from the information given in the wording. It is equally important from the assured's standpoint that this be given accurately. If a stock of goods is being insured, it is important that the class of stock be accurately described. If it is machinery, it is also very important that it be accurately described. Years ago, wordings went into great detail regarding kinds of stock and description of machinery, furniture and fixtures, and buildings, but the tendency in recent years is to describe

all of these in a general way only, making the wording concise, brief, using words that cannot be construed in two ways.

Use good English. A dictionary in many cases is of great value in getting a proper word that means one thing only. A wording should be so drawn that it can be understood by the assured or any other layman, instead of a wording which might only be understood by insurance men or a solicitor. Do not use indefinite terms.

Referring again to the kind of form used. It may be decided that a Blanket form is the most advantageous. Usually, on a risk consisting of several units, or buildings and contents at different locations, a blanket form is by far the best, particularly where the value of the contents is of a fluctuating nature. The Underwriters' Association penalize a Blanket form in respect that a ninety per cent. co-insurance clause is usually required, the credit in the rate being only given for the eighty per cent. clause. A Blanket form is a form which covers under one item, any number of buildings and the contents, consisting of stock, machinery, furniture and fixtures.

A General form is a form which does include several units but a specific amount is included on each building, and a specific amount on stock in each building, and a specific amount on machinery in each building. This, of course, refers to risks where the building and contents all are being insured. A General form is also written covering buildings only or covering stock only.

A Specific form is more or less the same as a General form excepting that each unit, or each building or the contents of each, is insured in that specific building under a single policy or single insurance wording, but specific policies or wordings are rarely used on plants consisting of several units. Take an assured who has branches at various points throughout Canada, a Blanket form or a general form policy can be written to cover all these properties under one insurance contract, even though the buildings are located in different provinces. It is to the advantage of an assured in a case of this kind, to have his buildings or other property insured under a Blanket form.

It is most important, after that portion of the wording which I have mentioned has been properly drawn, that the conditions of the contract be properly given, meaning by this, that the Statutory Conditions included in the fire policy may be varied. No information should be withheld from the insurance company or any misrepresentation of the risk be permitted, as either one of these conditions would vitiate the contract.

Any change material to the risk also vitiates the contract unless prompt notice is given to the company or its agent. The term "Change material to the Risk" means any increase of hazard which alters the conditions under which the insurance company accepted the business. Of course, if notice is given and accepted by the company, the contract is not vitiated, and the company can continue their policy in force, or cancel it if they so desire, or, they may require an additional premium to cover the extra hazard or change.

It is also necessary to give permission for other insurance, as the insurance companies are entitled to know whether or not there is other insurance. Unless consent is given by the insurance company for other insurance, the assured is not entitled to recovery according to the statutory conditions in excess of sixty per cent. of his loss. This condition is a safeguard to the insurance company.

As you all know, insurance is indemnity only, and is for the purpose of simply paying the actual loss sustained by the assured, and cannot be written so that the assured would make a profit by over-insurance. As stated before, the Statutory Conditions cannot be waived unless the waiver is clearly expressed in the wording or by an endorsement attached to the policy.

One of the most important Statutory Conditions is the one referring to the storage or use of gasoline, coal oil, lubricating oil and gunpowder. The majority of the insuring public do not know the limitations, particularly in respect to gasoline. The Statutory Conditions only permit of one quart of gasoline being kept on the premises without a permit. Permission may be granted up to one gallon, without extra charge and any larger quantity can be kept providing notice is given to the insurance companies, and an extra premium paid. There are some processes that require large quantities of gasoline. For instance, in a paint factory or risks where a dip tank is used for the purpose of facilitating the painting of various articles.

There are certain risks where it is desirable that a market value clause be included in the contract. The most outstanding example is the grain business. The price of grain fluctuates from day to day, and in order that there might be no dispute, a clause is included in practically all contracts that the market value on the day preceding the fire, will be the price used, unless, of course, the fire happened on the same day, but after the close of the market, the price, in that case, would be the closing price for that day. The market value clause is also used on lumber risks and there are other cases, particularly where it happens to

be a branch office of some concern, located in another part of the country. In that case, a different market clause is included. It is usual to include a clause stating that the price of the goods at the branch office will be the invoice price from the factory, which, of course, is greater than the manufacturing price, as it is designed to include the retail profit. This is quite a legitimate clause because, if this particular factory were selling their goods to a retail store, instead of through their own branch, the retail store would insure on the basis of their invoice.

There are some risks where a co-insurance clause is not included, and where various units or buildings or contents of various buildings are included under one contract. This can be done by the use of the "average clause" instead of the co-insurance clause. There is quite a misunderstanding of the average clause compared to the co-insurance clause. I have heard it said that in effect, the average clause is practically the same as the co-insurance clause, but this is not correct, and you can easily prove it for yourself by working out the application of the co-insurance clause with the application of an average clause in the event of a loss. Under an average clause the amount of insurance applying to any one location is the proportion of the value at that location as compared to the total value at all locations. Under the co-insurance clause, as long as the assured have complied with the conditions of the co-insurance clause, the full amount of the loss is paid at the particular point where the fire occurs. This is quite different from the average clause. For example, suppose there were five risks each valued at \$1,000, or a total of \$5,000, and the policy was subject to the 90 per cent. co-insurance clause, and \$4,500 insurance was carried. One of the risks burn, the assured collects \$1,000. Suppose the same insurance was carried, and the policy was subject to the average clause, the assured would only collect \$900, for the reason that the proportion of the insurance carried to the value was equal to $\frac{4,500}{5,000}$ and the assured would collect on that basis.

Another clause which is quite important, and possibly is a clause that you are not familiar with is the Railway Waiver clause. In some risks on lines of railways, the railway company exact from the owners of property a waiver, under which the assured agree that in the event of a loss caused by the operation of the railway companies' engines, or caused by one of their employees or otherwise, they cannot recover from the railway company. This is a change material to the risk and should be notified to the insurance company. Formerly this was a charge for the

inclusion of a Railway Waiver clause. The reason for this is, that under the subrogation clause included in the Statutory conditions, the insurance company, in the event of paying a loss, does not have the right to recovery from the railway company.

Other important features to embody are the privileges which are granted by the insurance company, such as use of oils and gasoline, as referred to above, shut-down periods, operation at night, and the use of certain machinery. The Statutory Conditions do not permit for the non-occupancy or non-operation of a plant for a period of longer than thirty days. There are certain risks such as saw mills, which can only be operated for a period of about eight months during the year and provision has to be made for this condition. The Underwriters' Association recognizes this fact and permit of a shut-down period for longer than thirty days on a seasonable risk. Privilege also has to be granted for carpenters and other workmen to be employed, all of which should be included.

Another clause usually included in a policy which covers in several provinces, is the Standard Time clause. The policy itself becomes effective at noon of the date on which the insurance is written and also expires at noon. Unless some definition is given as to what "noon" is meant, it might be construed to mean "noon" at the point where the policy is written, while the policy itself covers in a province where the time is one hour later. As a good example of this, there is between Winnipeg and Regina, one hour difference—when it is 12 o'clock at Winnipeg it is only 11 o'clock at Regina.

So far I have talked about Fire Insurance wordings only.

Another loss, which an assured is bound to suffer in the event of a fire, is covered by what is known as a Use and Occupancy policy. This class of insurance is also called Business Interruption insurance. It is obvious that in the event of a fire, an assured is going to be put to a greater expense than he otherwise would be by reason of the interruption of his business. If it is a bad loss, and he wishes to continue as quickly as possible, he is required to rent other premises, which is an additional expense. He also has certain overhead expenses that he cannot cut off, such as taxes, interest on mortgages or bonds, if any, and he may have certain employees that are very valuable to him, and he wishes to keep them, and he still has to continue paying their salaries, even though they may be of no assistance to him at the time, or he may have them under contract, which contract would continue. He also may have advertising

contracts and other expenses of a similar nature. In addition to all these expenses which would continue, there are his profits, which, naturally, stop when his premises are destroyed. Use and Occupancy insurance is designed to cover these losses and is just as legitimate a subject for insurance as the physical properties. This loss is a much harder one to determine than a loss to physical property. Use and Occupancy policies usually pay on the basis of one three-hundredth part of the policy per day. To my mind, this is not a fair provision, but the insurance companies and the Underwriters' Association have generally adopted this requirement, and claims have to be based on this requirement. If it took one year, or three hundred working days to replace every building destroyed by fire, it would be a fair way of writing the insurance, but in view of the different classes of construction of buildings, some may be replaced in a period of three months or six months or other periods less than a year, also depending somewhat on the time of the year the loss occurs. In this country, if a fire occurs in the winter, it naturally takes longer to replace it than if the fire had occurred in another season. This three hundred day provision means that an assured, to properly cover himself, has to carry double the amount of insurance he can possibly collect, this in the case of an assured who can replace his building in six months' time, and also means that he has to pay for double insurance. I am just mentioning this, as the fact may never have occurred to you, and because I think that possibly this situation will be corrected by insurance companies before many years. In drawing up a Use and Occupancy wording, the same general rules apply, as I have mentioned in connection with a straight fire insurance policy.

Another class of insurance, which is somewhat similar to Use and Occupancy insurance in that it covers a loss which is not a physical loss, is Rental Insurance, which is also a legitimate subject of insurance. In most leases for buildings provision is included therein that in the event of the property being destroyed by fire, the lease is cancelled. This means that the owner of the building loses the revenue from his tenants. In the event of a partial loss, the tenants rents will probably cease for the time that it takes to put the premises in a tenantable condition. In addition to the actual rent loss from tenants, the assured may occupy a portion of the building himself or a portion of the premises might be vacant at the time the fire occurred. Both of these cases can be covered by insurance and the description of the coverage is usually called Rental Value, because the premises have an actual value for rental pur-

poses. The same general conditions apply to drawing up a Rental or Rental Value contract as apply to the fire policy above.

I have endeavored to give you a brief outline, or method of procedure, in drawing up an insurance contract, and before ending my talk I would simply like to repeat again that always keep in mind and visualize the risk and the requirements in order to properly protect the assured, and always keep in mind the Statutory Conditions of an insurance policy, and draw your contract waiving the Statutory Conditions where necessary in order to give the assured full protection.

The “C” Tariff

THE "C" TARIFF

By C. R. O'MALLEY

Rating Officer, Western Canada Fire Underwriters' Association

There are two systems of rating employed in rating risks for fire insurance under the jurisdiction of the W.C.F.U.A. (Manitoba, Saskatchewan and Alberta). These systems are known as Schedule Rating and "C" Tariff. The Schedule system is an itemized rating schedule which deals with details of construction and is applied in rating risks situated in first and second class towns, while the "C" Tariff system (which we have under consideration tonight) is used in rating risks situated in third and fourth class towns.

You will note, therefore, that for rating purposes the towns and cities are divided into four classes: First, second, third and fourth—the Schedule system applicable to first and second, and the "C" Tariff to third and fourth. The classification of towns is a grading according to fire protection. First and second class are naturally those having much better protection than third and fourth, such as good and sufficient water protection and a paid and well-organized and equipped fire department. Third class towns are usually those protected to a certain extent by water system, but with only a volunteer fire brigade available for fire fighting. For this form of protection, however, a percentage reduction is allowed, this reduction being graded according to the protection afforded and ranges from two per cent. to about fifteen per cent., and it should be noted that these percentage reductions are always taken into consideration in the published rates. Fourth class towns are those not sufficiently protected to warrant such recognition in rate, or else without any protection whatever.

There are two classes into which all risks are divided according to occupancy, namely: "Three-year," or long term, and "Annual." Three-year risks are those entitled to be written for a term of three years at twice the annual rate and are generally dwellings, religious institutions, churches, schools, municipal buildings such as town halls, jails, fire halls, and community halls, but the three-year privilege is allowable only if risks listed as three-year are isolated or exposed only by like risks. A further concession, however, has been granted to dwellings—that a dwelling may be exposed by a mercantile risk and still be entitled to be written for three years at twice the annual rate, if the mercantile exposure or exposures do not exceed

50 cents building and 35 cents contents. If you will refer to pages 63 and 64 of the "C" Tariff, you will find listed on these pages the risks which are known as three-year or long-term risks, while you will find listed on pages 65 to 77 the annual risks, and these, you will note, consist principally of mercantile risks.

With regard to the risks listed as three-year risks, if they are exposed within 60 feet by one or more mercantile risks they are automatically taken out of the three-year class and become annual risks, the exception to his being the case of dwellings, which I have already explained.

The basis rates on three-year risks are determined according to the occupancy, construction and the classification of town in which they are situated. Thus a dwelling of frame construction with a shingle roof would be considered as fourth class, the basis rate for which is 75 cents building and 75 cents contents, if situated in a fourth class town, but a building of like construction and occupancy and isolated or exposed only by other dwellings or three-year risks would take a basis rate of 70 cents building and 70 cents contents if situated in a third class town. If, on the other hand, a dwelling of fourth class construction is situated in a third class town but exposed by a mercantile, whether or not the mercantile exposure exceeds 50 cents building and 35 cents contents, the basis rate is 75 cents building and 75 cents contents, to which should be added the mercantile exposure applicable, after which the town reduction is deducted. Then, if the mercantile exposures do not exceed 50 cents building and 35 cents contents, the dwelling may be written for three years at twice the annual rate. It should be distinctly understood that this three-year privilege is applicable only to dwellings. All of the risks listed in the three-year tariff may only be written for one year if exposed within 60 feet by a mercantile risk.

If you will refer to pages 40 to 42 of the "C" Tariff, you will find a schedule formulated to rate dwellings. This schedule differs in many respects from the mercantile "C" Tariff rating system, the principal differences being that in rating dwellings the sum of the distances between each building is taken into consideration and exposure ceases when a maximum rate of one per cent. is reached or the sum of the distances in each direction reaches 30 feet or not more than three exposures to be charged for in each direction. These rules apply whether or not the dwelling being rated is exposed by a mercantile risk. If exposed by other dwellings and also by mercantile risks, the dwelling schedule is used to arrive at the dwelling exposures applicable and then the mercantile exposure charges, as per the "C" Tariff, are added.

Mercantile Risks—You will find that all mercantile risks are for “C” Tariff rating purposes divided into four classes according to construction, namely, first, second, third and fourth class, first class being the best type of building from a fire-resistive and exposure standpoint and fourth class the worst. First class buildings are usually constructed of solid brick, solid concrete or stone, and equipped with a roof covered with a first-class roofing material—usually metal or an approved composition two, three or four-ply roof covering. Second class are buildings of first-class construction, insofar as wall construction is concerned, but covered with a shingle or other inferior roofing material, hollow tile buildings with first-class roof, brick-veneer with first-class roof, concrete block with first-class roof. Third class are usually brick-veneer with shingles or the inferior roof material, hollow tile wall with shingle roof, metal-clad with metal or other first-class roof. Fourth class are all frame buildings, irrespective of roof covering. It is important to note that all frame buildings, irrespective of roof covering, are now fourth class, because before the last revision of the “C” Tariff buildings of frame construction, but equipped with a first-class roof, were considered third class, if isolated or not exposed within 40 feet by other buildings. This rule has been cancelled.

You will find, if you will refer to pages 65 to 76 of the “C” Tariff, lists of occupancies in one column and in other columns corresponding figures. These figures are flat or basis rates and you will note that they vary according to occupancy and class of construction. Thus a building occupied as a general store, of fourth class construction, is given a basis rate of \$2.50; this basis rate, you will note, lessens as construction improves. Thus a general store of third class construction takes a basis rate of \$2.30 building and \$2.40 contents; second class, \$2.00 building and \$2.10 contents; first class, \$1.75 building and \$2.00 contents. Now, in these basis rates you will note that, with the exception of the basis rate for fourth-class buildings, there is a difference between the rates for buildings and those for contents. The reason for this can quite easily be understood after a little consideration. It is quite obvious that in a frame building, if a fire occurs either from exposure or in the building itself, building and contents are usually a total loss, but in a building of better construction, such as first or second class, it is possible for the contents to become a total loss and still comparatively very little loss to the building, especially if it is situated in a town provided with a fairly good fire department and water protection. Smoke and water (apart from fire) can certainly do more damage to contents than to building.

The next feature to be considered after the basis rate is determined is the hazard from fire from surrounding or adjoining buildings and this hazard is what is termed exposure. Of course, it is just as important to measure the hazard as it is to determine the inherent hazard of the risk being rated, which is called the basis rate. So to the basis rate charges must be added for exposure from other buildings. These exposure charges are shown on pages 82 and 83 of the "C" Tariff and are determined according to the construction of the exposing risk and the distance between the buildings. These exposure charges, you will note, vary to a great extent, according to the class of building being rated or the class of exposing building, the exposure charges applicable to second, third and fourth class buildings being much higher than these applicable to first class, and you will also note that, with the exception of first class buildings, there is a difference in the exposure charges for buildings and contents. The reason for this difference is the same as for the difference in basis rates, which I have already explained. It is obvious that a second, third or fourth class building will expose a building to a much greater extent than its contents.

Another class of risk I have not mentioned so far is Special Hazards. The method employed in determining exposure charges from such risks is very simple. Buildings exposed within certain distances of specials take the same rate as the exposing special hazard and at certain other distances further away take, as exposure charges, certain percentage of the final rate of the special so exposing.

Risks are rated along the street line or in the general direction of the street line and the rate still applies in rating corner buildings, but exposure charges are not added to the basis rates on such buildings from risks situated on both street lines but only from the street line from which the higher exposure charges are obtainable. Exposure charges are, however, added from a corner building to those situated on each street line, if, of course, the corner building is not cut off or isolated. Rear buildings, that is buildings situated at the rear of the lots, are not charged for as exposure to those situated in the front of the lots in the street line. The exception to this being the building situated at the rear of a corner building which, if it radiates exposure to buildings along the street line, is rated in the range according to its merits, whether or not it is an out-building in connection with the corner building.

When rating buildings of first, second, third and fourth class construction, you will note that exposure charges in all cases (except special hazards) cease at a clear space of

66 feet, a first class building with blank parapetted walls and high enough and long enough to constitute a complete cut-off, a standard independent fire wall, and, in the case of first class buildings to which exposure charges would be applicable, a clear space of 50 feet adjacent thereto.

For example, take the case of a general store of second, third or fourth class construction exposed by a butcher shop of like construction at a distance of say 35 feet. The basis rate on a general store, fourth class, is \$2.50 building and \$2.50 contents, then to arrive at the correct exposure charge reference should be made to the list of mercantile risks to obtain the basis rate applicable to third or fourth class building occupied as a butcher shop. You will find that the basis rate is \$2.00 building and \$2.00 contents, fourth class; then by referring to the exposure table you will find there are exposure charges which should be added for a building having a fourth class basis rate of less than \$2.50 building and \$2.55 contents, adjacent to 25 feet is 25 cents building and 20 cents contents, but the exposing building is 30 feet distant, so the exposure charge from this building, when a clear foot space of 25 feet and under 50 feet intervenes, is found to be 10 cents building and 5 cents contents. This charge of 10 cents building and 5 cents contents is added to the basis rate of the general store building rate, which will give you a final rate of \$2.60 building and \$2.55 contents, and so on right through the range until a rate of \$8.00 building and \$7.00 contents is arrived at, as these are the maximum rates (exclusive of extra charges for interior hazards) which may be charges for an ordinary mercantile risk in a "C" Tariff town.

The rating of buildings of first class construction exposed by buildings of like construction or buildings of inferior construction would appear to be somewhat more complicated for the beginner, but, if care is taken to take every feature which should be taken into consideration separately and step by step, there really should not be very much difficulty in rating this class of risk.

I find that one of the reasons why there are so many mistakes made in rating first class buildings, and they appear to be so difficult, is the fact that they are not nearly so numerous as fourth class buildings and consequently are not met with so frequently, with the result that no real effort is made to become thoroughly acquainted with this class of risk.

The principal feature to note in rating first class buildings or a range of buildings containing buildings of first class construction, are: Size, construction, height, occupancy, openings in side and rear walls, protected or other-

wise, and parapetted or non-parapetted walls. The basis rates are obtained in exactly the same manner as for second, third and fourth class buildings, and exposure charges are determined according to the construction, basis rate and distance between the first class building being rated and the exposing risk. Therefore, when rating a building of first class construction, you will find by referring to the rules of rating as set forth on pages 85 to 88 of the "C" Tariff that if there are unprotected openings to the walls, or if the walls are blank but not parapetted above the roof, if the building is exposed within 50 feet, certain exposure charges must be added to the basis rate. These exposure charges will be found on page 83 of the "C" Tariff. It should also be remembered that there are certain types of buildings (namely, concrete block and hollow tile with first-class roofs, and solid brick with other than first-class roofs) which, although they are classified as second class, are entitled to first class exposure and also radiate first class exposure to exposed buildings.

For example, a building occupied as an implement warehouse of first class construction, with or without parapetted walls, the wall, however, broken by unprotected openings, would take a basis rate of \$1.75 building and \$2.00 contents; then, if the building is exposed within 25 feet by, say a general store of second, third or fourth class construction, exposure charges should be added, as shown on page 83 of the "C" Tariff, namely, 20 cents building and 20 cents contents, or if the exposing wall is situated over 25 feet distant but less than 50 feet, the exposure would be 10 cents building and 10 cents contents; but if the exposing building is 50 feet or over distant, no exposure charge is added. On the other hand, if the exposing building is also first class construction, instead of charging the full exposure charges as above, 50 per cent. of these charges are added to the basis rate, according to the basis rate of the exposing risk and the distance between the risk being rated and the exposure.

When rating a frame range, or a range made up of principally second, third and fourth class buildings, in which there is also a first class building, if the buildings on each side of the first class building are higher or extend further to the rear than the first class building, then if the side walls of the first class building are blank and parapetted, it cannot be considered as a cut-off in the range and exposure charges are added to and from the buildings on either side at a clear space of 25 feet, and the first class building itself is subject to full first class exposure charges from one building on either side, if they project beyond the rear.

If a first class building with walls blank but not parapetted above the roof is exposed, then 50 per cent. of the exposure charges are added.

When rating risks in "C" Tariff towns you will often find buildings containing two or more occupancies, and in this regard it is well to remember that, whether the highest rated occupancy is on the first or second floor, it always determines the basis rate of the building. A one-story frame building in which there are two or more separate occupancies is rated the same as if these occupancies were contained in two or more separate buildings, but the highest rated occupancy determines the basis rate, and exposure charges are in like manner added to the rates on exposed buildings, except the case of first class buildings; these I will deal with further on.

In rating a two-story second, third or fourth class building containing several occupancies and having the highest rated occupancy on the second floor, then the second floor occupancy determines the basis rate and additional occupancy exposure charges are added for all ground floor additional occupancies, with the exception of the ground floor occupancy having the highest basis rate; and these exposure charges are also added to all exposing risks if of second, third or fourth class construction. Additional occupancy exposure charges from exposing buildings are never added to the rates in first class buildings, nor do additional occupancies in first class buildings affect the rates in exposed buildings.

Unlike second, third and fourth class buildings, which take for additional occupancy charges the exposure charge as set forth in the exposure table according to the basis rate of the additional occupancy, extra occupancies situated in first class buildings take additional charges of 10 per cent. of the basis rate for each extra occupancy, but the same rule for determining the different occupancies to be charged for applies on all classes of risks. For example, a building of fourth class construction occupied as a general store, butcher shop and office (three separate and distinct occupancies) if isolated, would take a rate of \$2.90 building and \$2.80 contents. This rate is made up as follows: The general store occupancy, being the highest rated occupancy in the building, would determine the basis rate and you will find that the basis rate in a general store is \$2.50 building and \$2.50 contents. To this rate should be added an exposure charge of 25 cents building and 20 cents contents for the butcher shop occupancy and 15 cents building and 10 cents contents for the office occupancy. If, however, these occupancies were contained on the ground floor of a two-

story frame building, and the second floor occupied as a carpenter shop, the rate would then be \$3.90 building and \$3.80 contents, made up as follows: The carpenter shop occupancy on the second floor, being the highest rated occupancy in the building, would determine the basis rate. This basis rate is \$3.50 building and \$3.50 contents, to which should be added exposure charges for all ground floor occupancies, with the exception of the occupancy having the highest basis rate—in this instance the general store. This leaves the butcher shop and office only to be charged for—25 cents building and 20 cents contents for the butcher shop and 15 cents building and 10 cents contents for the office. This gives you the final rate of \$3.90 building and \$3.80 contents, already mentioned.

Now, in rating buildings of first class construction containing several separate occupancies, the rules, as I have said, are somewhat different. Take, for example, the illustrations I have cited above and change the classification from fourth to first. Then you have a first class building, one story high, occupied as a general store, butcher shop and office—separate occupancies. The rate on this building works out at \$1.93 building and \$2.18 contents. This rate is arrived at as follows: As in the case of the fourth class building, the general store occupancy, which is the highest rated occupancy in the building, determines the basis rate. This basis rate you will find is \$1.75 building and \$2.00 contents, but instead of adding first class exposure charges, as set forth in the *Tariff* for the additional occupancies, 10 per cent. of the first class basis rate of each occupancy is added. The basis rate on a butcher shop, first class construction, is \$1.25 building and \$1.25 contents and for an office of like construction is 60 cents building and 60 cents contents; consequently, the additional occupancy exposure charges for these two occupancies are 12 cents building and 12 cents contents for the butcher and 6 cents building and 6 cents contents for the office, making the final rate of \$1.93 building and \$2.18 contents.

Now take a first class building, two stories high, occupied as a carpenter shop on the second floor and by a general store, butcher shop and office on the first or ground floor, the rate would be \$2.93 building and \$2.93 contents. As above, the second floor occupancy determines the basis rate. This is \$2.75 building and \$2.75 contents, to which should be added 12 cents building and 12 cents contents for the butcher and 6 cents building and 6 cents contents for the office occupancy, but nothing for the general store, which is the highest rated occupancy on the ground floor. This gives you the rate of \$2.93 building and \$2.93 contents.

There appears to be quite a misunderstanding, especially amongst country agents, as to the correct way to rate dwellings exposed by one or more mercantile risks, but I am of the opinion that this feature should not present any real difficulty. It simply amounts to this, that in rating a range of this description, two systems of rating are employed—the Dwelling Schedule and “C” Tariff. The Dwelling Schedule is used to rate the dwellings, insofar as basis rates and dwelling exposures only are concerned, and the “C” Tariff is used to rate the mercantiles and also to compute the mercantile exposures applicable to the dwelling. In other words, in rating dwellings exposed by mercantile risks, rate the dwellings according to the Dwelling Schedule and then add mercantile exposure charges; then, if the sum of the mercantile exposure charges does not exceed 50 cents building and 35 cents contents, the dwellings so exposed may be written for the three years at double the annual rate. If, on the other hand, the mercantile exposures are in excess of 50 cents building and 35 cents contents, the dwellings are not entitled to the three-year privilege.

THE INSURANCE INSTITUTE OF WINNIPEG

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EXAMINATION QUESTIONS
SENIOR
1926

1. (a) What is the change in Section 1 of the Statutory Conditions?
(b) What in your opinion will be the effect of this change in settlement of losses?
2. What is the difference between Schedule Rating and Minimum or "C" Tariff Rating?
3. (a) Name the classes of Insurance that come under the heading of Casualty Insurance.
(b) What is their relative importance from a revenue-producing standpoint?
4. (a) What is the difference between Leasehold and Rental Insurance?
(b) Explain the difference between the Average Distribution Clause and the Co-Insurance Clause.
5. How would you proceed to settle a Public Liability claim?
6. (a) What is the difference between "Moral" and "Physical" Hazard?
(b) What are the essential points to be known in order to properly underwrite a risk?
7. (a) Name and define five figures of speech.
(b) Write a paragraph on the statement: The aim of literature is to entertain, and the aim of English in business is to induce action.
8. Explain the statement, "Insurance rates are in the hands of the public."
9. (a) Explain the difference between "Blanket," "Specific" and "General" Insurance forms.
(b) What is Use and Occupancy or Business Interruption Indemnity?
10. (a) Explain the Co-Insurance Clause and state the desirability of this clause from the companies' standpoint.
(b) What is the Prairie Fire Clause? Is there a charge made for this clause?

EXAMINATION QUESTIONS
JUNIOR
1926

1. What is the contract in a policy of fire insurance?
2. What are the main points considered in the application of the Mercantile Schedule?
3. (a) What is a Fidelity Bond?
(b) What is Property Damage Insurance?
(c) What is Public Liability Insurance?
4. (a) What is the Guaranteed Amount Clause?
(b) What is a Floating Policy?
5. How would you proceed to settle a Property Damage claim?
6. What are the duties of Underwriters?
7. (a) Name five figures of speech.
(b) Copy the following statements and, after each one, name the figure of speech that is illustrated.
 1. An Agent should never allow a customer to find him asleep at the switch.
 2. "Too many Agents," is the cry heard on all sides.
 3. Insurance is a shield—a cover.
8. How does the Western Canada Fire Underwriters' Association keep down the cost of insurance to the public?
9. Explain the following clauses and when it is advisable to use them:
 - (a) Market value.
 - (b) Railway waiver.
 - (c) Standard time.
10. (a) Why are the exposure charges on class three and four buildings higher than the exposure charges on contents?
(b) Explain the necessity for a Vacancy Permit and the difference between Permits "A" and "B".

EXAMINATION PRIZE WINNERS

1925-1926

SENIOR

FIRST PRIZEMISS ESTHER TEMPLE
Allan, Killam & McKay, Ltd.

SECOND PRIZER. P. SIMPSON
Western Canada Fire Underwriters' Association

THIRD PRIZEW. LESLIE MARSHALL
Osler, Hammond & Nanton, Ltd.

JUNIOR

FIRST PRIZEMISS M. BOUTELL
Dominion Gresham Guarantee & Casualty Co..

SECOND PRIZEMISS ESTHER TEMPLE
Allan, Killam & McKay, Ltd.

THIRD PRIZEHARRY SEABROOK
Osler, Hammond & Nanton, Ltd.

